ALLIANCE ATLANTIS

ALLIANCE ATLANTIS COMMUNICATIONS INC.
1999 ANNUAL REPORT

CORPORATE PROFILE AND PRINCIPAL BUSINESS ACTIVITIES

ALLIANCE ATLANTIS COMMUNICATIONS INC. ("ALLIANCE ATLANTIS") IS A LEADING INTERNATIONAL CREATOR, PRODUCER, DISTRIBUTOR AND BROADCASTER OF FILMED ENTERTAINMENT WITH SIGNIFICANT INTERESTS IN SEVEN CANADIAN SPECIALTY TELEVISION NETWORKS.

IN SEPTEMBER 1998, THE COMPANY WAS FORMED FROM THE MERGER OF ALLIANCE COMMUNICATIONS CORPORATION AND ATLANTIS COMMUNICATIONS INC. FOR THE YEAR ENDED MARCH 31, 1999 – THE FIRST FISCAL YEAR-END REPORTING PERIOD SINCE THE MERGER – THE COMPANY REPORTED REVENUE OF $707.7 MILLION, EBITDA OF $67.1 MILLION, AND ASSETS OF APPROXIMATELY $1.4 BILLION. THE COMPANY'S COMMON SHARES ARE LISTED ON THE TORONTO STOCK EXCHANGE AND THE MONTREAL EXCHANGE – TRADING SYMBOLS AAC.A, AAC.B, AND ON THE NASDAQ – TRADING SYMBOL AACB.

THE COMPANY'S PRINCIPAL BUSINESS ACTIVITIES ARE CONDUCTED THROUGH THREE OPERATING GROUPS; TELEVISION, MOTION PICTURE AND BROADCASTING.

THE **TELEVISION GROUP** DEVELOPS, FINANCES, PRODUCES, ACQUIRES AND DISTRIBUTES TELEVISION SERIES, MOVIES AND MINI-SERIES – AND LICENCES ANCILLARY RIGHTS FOR THE GLOBAL MARKET.

THE **MOTION PICTURE GROUP** DEVELOPS, FINANCES, PRODUCES, ACQUIRES AND DISTRIBUTES THEATRICAL MOTION PICTURES WORLDWIDE – AND EXHIBITS MOTION PICTURES IN CANADA.

THE **BROADCASTING GROUP** CURRENTLY OWNS, EITHER WHOLLY OR IN PART, SEVEN SPECIALTY TELEVISION NETWORKS – SHOWCASE, LIFE NETWORK, HGTV (HOME & GARDEN TELEVISION) CANADA, HISTORY TELEVISION, CANAL FICTION, CANAL HISTOIRE AND, SUBJECT TO REGULATORY APPROVAL, HEADLINE SPORTS – AND IS THE EXCLUSIVE SPONSOR IN CANADA FOR THE UNITED STATES BASED FOOD NETWORK.

ALLIANCE ATLANTIS MAINTAINS OFFICES IN LOS ANGELES, MONTREAL, VANCOUVER, LONDON, SYDNEY AND SHANNON. THE COMPANY'S HEAD OFFICE IS LOCATED IN TORONTO.

CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited - see note 1)

(in millions of Canadian dollars – except per share amounts)

For the year ended March 31,	1999	1998	Change
Revenues	**707.7**	596.8	+ 18.6%
Gross profit	**133.4**	115.0	+ 16.0%
Operating expenses	**79.2**	66.9	+ 18.4%
Net earnings – see note 2	**23.3**	26.6	– 12.4%
Earnings per share	**$ 0.99**	$ 1.33	– 25.6%
Average shares outstanding (,000's)	**23,465**	19,908	+ 17.9%
EBITDA – see note 3	**67.1**	50.3	+ 33.4%

note 1: prepared on a pro forma basis, assuming merger occurred on April 1, 1997.

note 2: excluding merger and restructuring expenses of $81,391, for the year ended March 31, 1999, net of income taxes.

note 3: excludes $23.3 million (1998 – $4.5 million) of interest – $10.3 million (1998 – $2.4 million) of which has been charged to interest and $13.0 million (1998 – $2.1 million) of which has been charged to direct operating expenses during the year.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions of Canadian dollars)

As at March 31,	1999	1998
Cash, accounts and other receivables	**566.9**	293.2
Investment in film and television programs	**542.7**	215.5
Development costs	**23.4**	19.9
Broadcast licences	**78.3**	10.2
Other	**174.1**	26.2
	1,385.4	565.0
Revolving term loans	**437.0**	111.6
Accounts and other payables	**278.0**	121.2
Deferred revenue	**149.3**	61.4
Convertible debentures	**8.8**	17.6
Minority interest and other	**57.4**	33.8
Shareholders' equity	**454.9**	219.4
	1,385.4	565.0

1999 PRIMARY ACCOMPLISHMENTS

- COMPLETED MERGER OF ALLIANCE COMMUNICATIONS CORPORATION AND ATLANTIS COMMUNICATIONS INC.
- IDENTIFIED AND IMPLEMENTED INITIATIVES TO REALIZE COST REDUCTIONS AMOUNTING TO $20 MILLION – ON AN ANNUALIZED BASIS.
- TELEVISION GROUP RENEWED EXCLUSIVE CANADIAN DISTRIBUTION AGREEMENT WITH CBS TO 2003.
- MOTION PICTURE GROUP RENEWED DISTRIBUTION AGREEMENTS WITH MIRAMAX AND NEW LINE – AND, SUCCESSFULLY LAUNCHED ALLIANCE ATLANTIS CINEMAS.
- BROADCASTING GROUP WAS GRANTED LICENCES TO LAUNCH TWO NEW FRENCH-LANGUAGE NETWORKS – CANAL HISTOIRE AND CANAL FICTION – AND, SUBJECT TO REGULATORY APPROVAL, AGREED TO ACQUIRE 47.85% OF HEADLINE SPORTS.

1999 SEGMENTED INFORMATION

REVENUE – $707.7 MILLION **GROSS PROFIT – $133.4 MILLION**

(In thousands of Canadian dollars)

As at March 31, 1999		
EBITDA – see note 1		
Television Group	38,707	57.6 %
Motion Picture Group	18,210	27.1 %
Broadcasting Group	16,302	24.3 %
Other	(6,075)	(9.0)%
	67,144	100.0 %

note 1: excludes $23.3 million (1998 – $4.5 million) of interest – $10.3 million (1998 – $2.4 million) of which has been charged to interest and $13.0 million (1998 – $2.1 million) of which has been charged to direct operating expenses during the year.

MESSAGE TO SHAREHOLDERS

On September 16, 1998, shareholders of Atlantis Communications Inc. and Alliance Communications Corporation voted overwhelmingly to approve the merger of these two companies, each already leaders in the television, motion picture and specialty broadcasting industries.

At that meeting, I told shareholders that the merger reflects our commitment to be the architects of our future – to cause change proactively instead of being overcome by it.

Over the past decade or so, the television and motion picture industries have undergone tremendous consolidation and change. This has occurred as new technologies, deregulation and new entrants to the industry have combined to create a growing new world of exciting opportunities for entertainment and information providers.

We merged Alliance and Atlantis in order to create a company capable of growing and winning in this changing environment. We merged to create a platform for future growth.

In the short run, we also saw the opportunity to eliminate duplication and significantly reduce operating costs. In the brief period since the merger we have followed this plan and taken measurable steps towards achieving these goals.

MICHAEL I.M. MACMILLAN
Chairman and
Chief Executive Officer

BENEFITS OF THE MERGER

We have now reduced our operating costs by $20 million annually – our stated goal. We did this by eliminating 164 full and part-time positions, by eliminating duplicate offices and by reviewing and revising business processes and spending commitments throughout the Company. The full annualized effect of these cost savings will be reflected in our fiscal 2001 financial results.

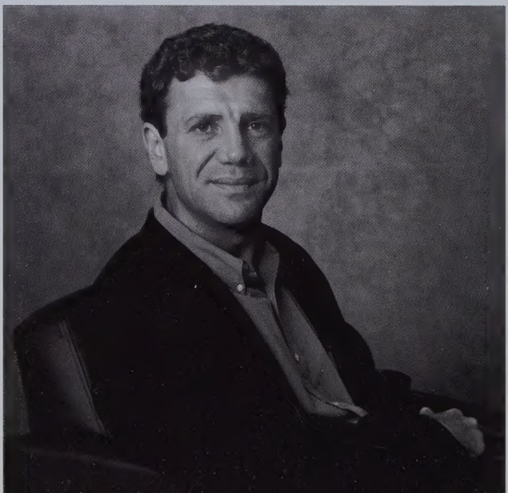
We have already achieved key milestones in each of our three operating groups – Television, Motion Picture and Broadcasting – by taking advantage of the growth platform provided by the merger.

In the **Television Group,** we undertook a number of new, very commercially focused television series aimed at the global market. We are particularly proud of *Peter Benchley's Amazon*, a new, high profile series to premiere in the fall of 1999. It is significant that Alliance Atlantis developed this series internally and controlled worldwide distribution rights, licensing U.S. rights to CBS/Eyemark, Canadian rights to WIC and continental European rights to KirchMedia, prior to the commencement of production.

In May of this year, our internally conceived and produced mini-series *Joan of Arc* achieved ratings victory during the all important "sweeps" for CBS and has since gone on to win the coveted Television Critics Award for Best Movie or Mini-Series or Special, for all programming in the U.S. It is commercially driven, internationally popular programming, like *Joan of Arc* and *Amazon*, that will underpin the future profitability and library value of the **Television Group.**

Our **Television Group** also renewed its distribution contract with CBS, so that we will continue to be the exclusive agent in Canada, selling CBS television programs through 2003.

The **Motion Picture Group** has also prospered since the merger. We have renewed our exclusive representation agreements with both New Line and Miramax whereby we continue to exclusively distribute all motion pictures from these two highly successful studios until 2001 and 2005 respectively. Hit motion



LEWIS N. ROSE
President

pictures from New Line and Miramax include *Austin Powers: The Spy Who Shagged Me, Shakespeare in Love* and *Life is Beautiful*.

Since the merger, we have taken a significant step in the growth of our U.K. distribution business with the very successful release of David Cronenberg's *eXistenZ*, which was by far the largest grossing film ever released by the Company in the U.K.

As well, we launched our new upscale, art-house cinema chain in partnership with Famous Players. Alliance Atlantis Cinemas now consists of 16 screens in four locations, including the newly constructed Beach Cinema in Toronto that opened in late May.

In our **Broadcasting Group,** we were granted licences by the CRTC to launch two new French-language networks – Canal Histoire and Canal Fiction. These networks, scheduled to launch January 2000, are French-language equivalents to our existing History Television and Showcase networks and these French networks are 50/50 joint ventures with Astral Communications. We also reached an agreement to acquire 48% of the successful Canadian network Headline Sports, subject to regulatory approval.

STRATEGIES FOR SUSTAINED GROWTH

Over the next three years we intend to continue to shift the composition of our earnings and cash flow. By the end of fiscal 2002, we plan to earn over 66% of our net earnings from areas of activity other than our then current year's slate of new productions – in other words, from inherently recurring, repeatable and ongoing aspects of our business. These aspects include broadcasting, library sales, representation of third-party catalogues, cinemas and on-line new media activities. By achieving this, we will make our earnings more predictable, our cash flow more reliable and give greater certainty to achieving our annual year-over-year growth and profitability targets.

Our growth strategy in the **Television Group** has three components. First, we will reduce the total number of hours of new production output, with the goal of increasing profit margins. We will achieve this by producing programs which are commercially appealing in many countries and by maximizing the control of distribution rights.

Second, we will alter our product mix somewhat. We will decrease the number of one-hour drama series, in order to reduce the oversupply of product of this type which the Company had in production at the time of the merger. As well, we will increase our output of children's programming.

Finally, we intend to enter into further output deals, whereby customers agree ahead of time to license a minimum number of programs, prior to knowing the titles of the programs. These arrangements, which

increase the predictability and reliability of revenue, complement the output deals we recently signed with Endemol Entertainment (Europe), Eagle Pictures (Italy) and Telecinco (Spain).

In the **Motion Picture Group** our growth plan has three main ingredients. First, we will continue our focus on the production and distribution of upscale, director-driven motion pictures, usually with budgets in the $2 million to $10 million range. Even with the occasional opportunity to produce films at somewhat higher budget levels, we will continue our practice of managing our risk by arranging pre-sales, co-productions and other forms of third-party financing prior to production. This risk management philosophy will apply to all the films we finance, including films produced for us by Robert Lantos' company Serendipity Point Films.

Our second strategy is to expand our U.K. distribution business, where the growth opportunity is significant. We will bring the same emphasis on sales and marketing to this unit as we do our highly successful Canadian distribution operation.

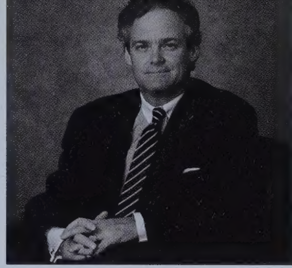
Finally, we will continue to grow Alliance Atlantis Cinemas. Adult film audiences want an upscale, sophisticated cinema experience that combines an inviting ambiance with large screens, terrific sound and stadium seating. The box office success of our growing cinema chain is evidence that many Canadian movie-goers share our view.

Our **Broadcasting Group** has an enormous opportunity to continue the growth of our existing networks, by offering our viewers clearly defined thematic channels that appeal to a specific community of interest. Canadians, like Americans, obviously delight in the new choices offered by specialty channels. Now, 42% of the time that Canadians spend watching television is spent watching specialty or pay television. This is a fundamental change in how Canadians are using television. Our networks have been front and centre in this growth – last year, on average, our ratings grew by more than 28%.

In addition to internal growth of our four existing networks, we intend to grow our broadcasting business by adding additional networks. Our initiatives with Canal Fiction, Canal Histoire and Headline Sports are examples of this.

We also intend to apply to the CRTC for a number of new networks as soon as possible. These applications will include our agreement and plan to convert the Food Network to a Canadian food network as well as a number of other new channel concepts that we believe will be of strong interest to Canadian viewers, Canadian advertisers and Canadian cable and DTH operators.

W. JUDSON MARTIN
Executive Vice President and
Chief Financial Officer



Our existing broadcasting infrastructure makes it possible to add additional networks for increasingly lower operating cost per network. As a result, we are well positioned to offer new networks to our viewers even in a cable/DTH distribution environment that is only slowly making the transition to digital set top boxes. Until that transition is much more advanced, it will be essential to offer quality new networks with low operating costs. Our **Broadcasting Group** is now able to do this.

Our corporate growth strategy includes the creation of a new business activity – New Media. We are entering the explosive new world of the Internet for two key reasons. First, we are already in the business of delivering audio and video "bits" of information to viewers. This is already our core business. The Internet is another way of accessing our customers and is therefore a natural extension for us.

Secondly, in our specialty broadcasting business, our thematic networks are dedicated to serving precise communities of interest – for example, the gardening enthusiasts or home renovation buffs who watch HGTV. Viewers who belong to one of these communities of interest will frequently go a long way out of their way to pursue that interest – they will subscribe to specialty magazines, they will shop at specialized retailers and they will use the Internet to learn more about what interests them. We are perfectly positioned with our thematic networks to serve members of these communities on the Internet as well. We are positioned to leverage our natural advantage – the marketing power of our existing thematic channels which already attract the viewers that belong to this community of interest.

Our growth plan is clear and bold – and we are confident of our ability to meet our targets.

Throughout this 1999 Annual Report to Shareholders, we emphasize the growth strategies of each of our operating groups – as they are the Company's revenue and earnings drivers. We are pleased that each of our three operating groups has been able to capitalize on the efficiencies and opportunities provided by the merger.

By contrast, the Company has found it somewhat more challenging to merge the central service departments of the Company – departments such as finance, information technology, human resources and communications. These are the departments that were most disrupted by the merger, as the duplication (and elimination) of positions was substantial. As a result, truly effective financial planning was delayed until the spring of 1999. We have recently made significant progress, particularly with the hiring of our new Executive Vice President and Chief Financial Officer, Judson Martin. Over the next six to twelve months, the continued upgrading of these departments remains a priority.

Growing shareholder value is a top priority for this Company. The senior management group of Alliance Atlantis are substantial shareholders in the Company and we are clearly disappointed with the stock performance in recent months. We believe that the patience of our shareholders will be well rewarded as the success of the merger and the execution of our growth plans are realized. The merger has greatly enhanced the strategic positioning of the Company for mid and long-term value growth.

New digital technologies are changing the way consumers around the world are able to access entertainment and information. This will continue to create new opportunities for creative, market-sensitive content owners like us who are able to understand and deliver what consumers want. This will also mean a continued lightening of the hand of regulation in Canada and internationally. Vertical integration and horizontal consolidation will continue and Alliance Atlantis will be proactive to prepare for and lead this change.

The past year has been an exhilarating and challenging year for our Company, employees, shareholders and customers. For employees in particular, a merger sees the elimination of jobs, the changing of roles, the introduction of different management processes, and the evolution of internal relationships – all of which are difficult.

The employees of Alliance Atlantis have performed exceptionally well through this period. I thank each and every member of our team for her or his contribution to the successful effort. As well, I would like to acknowledge the 164 full and part-time employees of Alliance Atlantis whose jobs were eliminated in the merger. We greatly respect and appreciate your contribution to the Company and hope that you are finding success in your new careers.

Similarly, I thank our Board of Directors for their guidance and advice throughout. I am particularly pleased to be working with a Board strengthened by the membership of excellent directors from both former companies.

The past twelve months have been a privilege for me. Although not without its challenges, the year has allowed us to take major steps forward in pursuit of our strategic goals. We have not completed our work yet. We are well positioned to pursue our strategies for future growth and profitability. In short – the best is yet to come.

Michael I.M. MacMillan
Chairman and Chief Executive Officer

JOAN OF ARC

TELEVISION GROUP

FORGET ME NEVER

TRADERS

SEATON McLEAN
President
Alliance Atlantis
Television Production

TED RILEY
President
Alliance Atlantis
Television Distribution

PETER SUSSMAN
President
Alliance Atlantis
Entertainment

1999 PRIMARY ACCOMPLISHMENTS

- NINE SERIES RENEWED, EIGHT NEW SERIES ORDERED
- COMPLETED INTERNATIONAL OUTPUT DEALS WITH EAGLE PICTURES (ITALY) AND TELECINCO (SPAIN)
- RENEWED EXCLUSIVE CANADIAN DISTRIBUTION AGREEMENT WITH CBS FOR THREE ADDITIONAL YEARS
- PRODUCED RATINGS AND AWARD-WINNING MINI-SERIES, *JOAN OF ARC*, FOR CBS
- OBTAINED EXCLUSIVE DISTRIBUTION RIGHTS FOR CANAL PLUS CATALOGUE AND LIBRARY

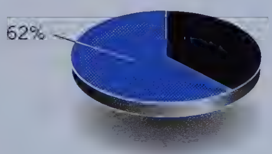
STRATEGIES FOR GROWTH AND PROFITABILITY

- REDUCE TOTAL NUMBER OF HOURS PRODUCED AND ALTER MIX OF HOURS
- FOCUS ON INCREASING MARGIN CONTRIBUTION RATHER THAN QUANTITY OF HOURS PRODUCED
- ACHIEVE GREATER CONTROL OF DISTRIBUTION RIGHTS
- INCREASE NUMBER OF OUTPUT DEALS IN EUROPE AND ASIA
- ADD ADDITIONAL THIRD-PARTY CATALOGUES FOR OUR GLOBAL DISTRIBUTION SALES FORCE

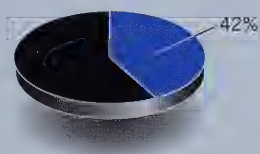
The Alliance Atlantis Television Group develops, finances, produces, acquires and distributes television series, movies and mini-series – and licences ancillary rights for the global market – to approximately 400 broadcasters located in 200 countries around the world.

For the fiscal year ending March 31, 1999 the Television Group contributed $438.7 million – or 62% of the Company's consolidated revenue; $55.5 million – or 42% to gross profit; and $38.7 million – or 58% to the Company's consolidated EBITDA.

REVENUE
% of Total



GROSS PROFIT
% of Total



PRODUCTION

A leader at home and abroad, the Television Group is committed to producing and distributing quality dramatic programming with worldwide appeal.

Strong international sales and an increasingly commercial slate of production has enabled the division to post record revenue and gross profit in fiscal 1999.

The division enjoyed an extraordinarily high series renewal rate with nine series being renewed, as well as orders for eight new series and 16 hours of TV movies and mini-series. This extraordinary confirmation of renewals and new orders gives the Company a solid production base early in the fiscal year and speaks to the high quality of Alliance Atlantis' programming overall. It also increases the value of the Company's library over the long term. Alliance Atlantis now has an impressive 12,500 hours of entertainment in its catalogue and this is a very important asset of the Company.

Over the coming years, Alliance Atlantis strategically plans to concentrate on those projects in which the Company can maximize the control of distribution rights, thus increasing the profit margins on each production. By doing so, the Company is able to increase the size of its valuable library, and revenue from sales of these television programs accrue to Alliance Atlantis, rather than third parties.

In addition, the overall mix of the kinds of television series produced in the future will be structured so that the Company is producing a broader range of programs. Besides one-hour dramatic series, other genres will be expanded including, in particular, children's programming.

Those series which the Company produces or acquires for distribution that are being renewed for 1999 – 2000 include:

- *Power Play* (CTV)
- *Cold Squad* (CTV)
- *Traders* (Global)
- *Gene Roddenberry's Earth: Final Conflict®* (Tribune, City-TV)
- *The Famous Jett Jackson* (Disney Channel)
- *Nothing Too Good For A Cowboy* (CBC)
- *PSI FACTOR®: Chronicles of the Paranormal* (CBS/Eyemark, Global)
- *The Outer Limits* (Showtime, MGM, Global)
- *Da Vinci's Inquest* (CBC)

The new series for 1999 – 2000 which the Company has produced or acquired include:

- *Beastmaster* (22 x 1 hour) A new action-adventure series based on the book that inspired the successful motion picture of the same name. This series is shooting in Australia and is syndicated in the U.S. by Tribune Entertainment. All rights outside the U.S. are controlled by Alliance Atlantis, and the series is now part of the Company's output deal with Endemol Entertainment.
- *Peter Benchley's Amazon* (22 x 1 hour) The highly anticipated new action-adventure series from the writer of *Jaws*, Peter Benchley. This series is syndicated in the U.S. by Eyemark Entertainment, a

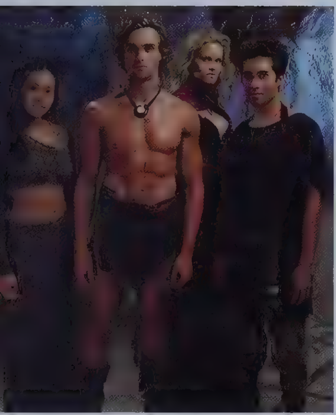
From left to right: Now in its fourth year of production, **PSI FACTOR®: Chronicles of the Paranormal** features host Dan Aykroyd.

Gene Roddenberry's Earth: Final Conflict® boldly enters its third season.

Power Play burst into its second season on CTV.

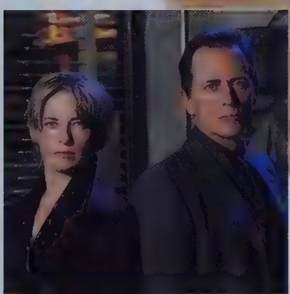
Currently in production on its third season, **Cold Squad** is one of the best selling Canadian television series internationally.

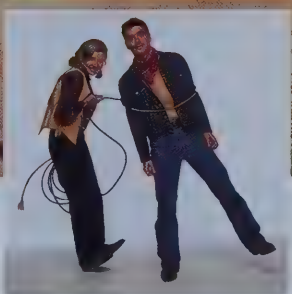
Nothing Too Good For A Cowboy, now filming season two, continues to corral more CBC viewers with each episode.



Above: **Beastmaster,** a new action-adventure series that follows the pre-Bronze Age adventures of Dar, a man gifted with the ability to talk with animals and share their powers.

Right: The highly anticipated new action-adventure series from the master storyteller, **Peter Benchley's Amazon** will premiere in the U.S. and Canada this fall (pictured – Carol Alt).





division of CBS. Alliance Atlantis controls the rest of the rights worldwide and has already concluded an agreement with WIC in Canada and KirchMedia in continental Europe for 66 episodes.

- *I Was a Sixth Grade Alien* (22 x ½ hour) A new kids' series for YTV in Canada and FOX FAMILY Channel in the U.S., and based on the new series of books from Bruce Coville, one of the most prolific writers of children's books today. Alliance Atlantis controls all rights worldwide.
- *In Tha' Mix* (13 x ½ hour) A gutsy series about two hip-hop deejays for the CBC, a spin-off from the award-winning series *Straight Up*. The Television Group controls all rights worldwide.
- *Pumper Pups* (13 x ½ hour), *Hoze Houndz* (13 x ½ hour), *Monster By Mistake* (16 x ½ hour) and *China Wings* (13 x ½ hour) are examples of animated programming that will be launched by the Company during fiscal 2000.

Some of the recent movies and mini-series from the Television Group (including its wholly-owned affiliate Citadel Entertainment), include:

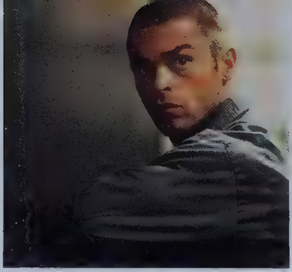
- *Joan of Arc* (CBS, CBC) One of the most successful projects ever produced by the Company, this

Left: Alec Baldwin leads an all-star cast in the event four-hour mini-series for TNT, **Nuremberg,** filmed in Montreal.

Below: Lee Thompson Young stars as "Jett Silverstone" in the hit series **The Famous Jett Jackson** which airs in the U.S. on the Disney Channel.

Left to right: **Hard Time: The David Milgaard Story** aired on CTV garnering outstanding ratings of more than 1.5 million viewers.

Emmy Award-winning actress Sela Ward stars in the upcoming television movie for CBS, **Catch a Falling Star.**



award-winning four-hour mini-series boasted a stellar cast including LeeLee Sobieski, Peter O'Toole, Jacqueline Bisset and Shirley Maclaine, and led CBS to victory in the coveted May sweeps period.

- *Nuremberg* (TNT) This four-hour mini-series is in production and will be broadcast in 2000. It stars Alec Baldwin who plays the lead prosecutor at the famous Nuremberg war crime trials.
- *Scandalous Me: The Jacqueline Susann Story* (USA Network, CTV) Michele Lee stars as the colourful, outspoken author Jacqueline Susann whose novel "Valley Of The Dolls" remains the best selling novel in history.
- *Beauty* (CBS) This movie is a modern day retelling of the classic story "Beauty and the Beast" with a unique twist, starring Janine Turner and Jamie Sheridan.
- *Thirst* (NBC) This movie starring Joely Fisher and Adam Arkin, gave NBC their first movie ratings victory for the 1998 season. This action adventure follows one man's battle with a deadly virus to prevent the widespread contamination of a city's water supply.
- *Shot Through the Heart* (HBO) The award-winning film shot in Budapest is a gripping and timely drama that examines the horrors of war in Sarajevo from the point of view of two best friends, one a Serbian one a Croat, who are forced to turn against each other. The film won a prestigious Peabody Award.
- *Survivor* (UPN) The final film in a package of six films produced by the Company in 1998 – 99 for UPN as part of their "Way Out There" movie franchise, is a thriller set on a desolate Arctic island which follows the exploits of a crew of oil riggers who unwittingly unleash an alien monster, buried deep in the earth for thousands of years. The six films were shot in Luxembourg and Toronto.

CHILDREN'S PROGRAMMING

Alliance Atlantis is committed to growing the children's programming division, both in live action and animation programming. The Company recently launched two new kids' series – *The Famous Jett Jackson* and *I Was a Sixth Grade Alien*. Other kids' series being launched in 1999 – 2000 by the television group include *Pumper Pups*, *Monster By Mistake*, *China Wings* and *Hoze Houndz*. All of the Company's children's programming will soon be consolidated under the "Alliance Atlantis Kids" banner.

DISTRIBUTION

The television distribution operation is Alliance Atlantis' gateway to markets outside North America as well as to the secondary or "after-markets" in Canada and the U.S. The Company generates distribution revenue by promoting, marketing and licensing television programming, whether produced by the Company or acquired from third parties, to broadcasters and buyers around the world.

The division is also involved in capitalizing on the commercial potential of its drama shows in other types of markets such as video, DVD, merchandising and e-commerce.

More than 80% of Alliance Atlantis' license revenue is generated outside Canada including approximately 45% from the U.S.

A key factor in Alliance Atlantis' growth strategy is to increase the number of multi-year output deals in Europe and Asia, thereby securing buyers in advance for the Company's television programming and providing stronger and predictable revenue for production financing.

Last year, a series of output deals secured with international buyers included an output deal with European-based Endemol Entertainment. Alliance Atlantis' program package arrangement with Endemol means a commitment by Endemol of $100 million over three years dedicated to licensing a number of the Company's series and TV movies.

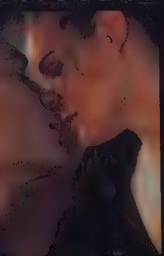
Highlights of other output agreements include:

- A recent three-year output agreement with Spanish broadcaster Telecinco, who have licensed television and home video rights in Spain for a package of 31 television movies to be produced by Alliance Atlantis.
- An output deal with Italy's Eagle Pictures, who have licensed Italian rights to 40 television movies produced by Alliance Atlantis over the next three years.

Another key factor in Alliance Atlantis' growth strategy is to increase the Company's control of distribution rights to programming from third parties, particularly on a packaged or pre-negotiated basis. A highlight of Alliance Atlantis' success in this regard is evidenced by the recent agreement to extend to 2003, the Company's rights as the exclusive distributor in Canada of the CBS catalogue. This includes such hits as *Everyone Loves Raymond*, *Walker, Texas Ranger*, *60 Minutes* and *Touched By An Angel*.

Alliance Atlantis' goals for the future include diversifying our product and output deals even further, expanding our distribution pipeline, and increasing the amount of product we distribute.

eXistenZ

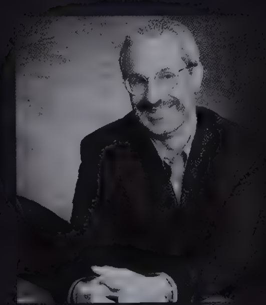


A ROOM FOR ROMEO BRASS

MOTION PICTURE GROUP

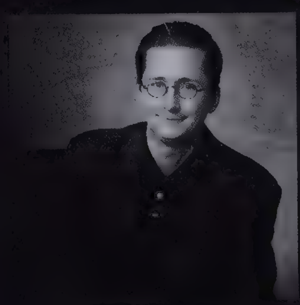
SHAKESPEARE IN LOVE

VICTOR LOEWY
Chairman
Alliance Atlantis Motion Picture Group



DAVID GINSBURG
President
Alliance Atlantis
Motion Picture Group

JEFF RAYMAN
President
Alliance Atlantis Equicap



PATRICE THÉROUX
President
Alliance Atlantis
Motion Picture Distribution

1999 PRIMARY ACCOMPLISHMENTS

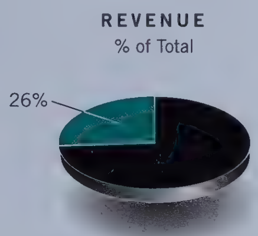
- RENEWED MOTION PICTURE DISTRIBUTION AGREEMENTS WITH MIRAMAX, NEW LINE AND SECURED NEW AGREEMENT WITH ARTISAN
- ACQUIRED 75% INTEREST IN ODEON FILMS
- SUCCESSFULLY LAUNCHED ALLIANCE ATLANTIS CINEMAS IN CANADA

STRATEGIES FOR GROWTH AND PROFITABILITY

- PRUDENT EXPANSION OF ALLIANCE ATLANTIS CINEMAS IN CANADA
- SIGNIFICANTLY INCREASE NUMBER OF FILMS DISTRIBUTED IN CANADA
- EXPAND NEW DISTRIBUTION EFFORT IN THE UNITED KINGDOM

The Alliance Atlantis Motion Picture Group develops, finances, produces, acquires and distributes theatrical motion pictures worldwide – and exhibits motion pictures in Canada.

For the fiscal year ending March 31, 1999 the Motion Picture Group contributed $180.4 million – or 26% – to the Company's consolidated revenue; $30.3 million – or 23% – of gross profit and $18.2 million – or 27% – of the Company's consolidated EBITDA.

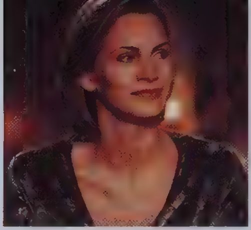


PRODUCTION

The Motion Picture Group produces and acquires independent motion pictures for the world market. The Company's customers are the leading independent distributors around the world – including our own motion picture distribution operations in Canada and the U.K.

Continuing to capitalize on the momentum of last year's success of *The Sweet Hereafter*, which was nominated for two Academy Awards, the Company is focused on the production of upscale, director-driven, high-quality motion pictures in the art-house genre. A further example of this successful strategy is David Cronenberg's futuristic thriller *eXistenZ*, which was produced and released during the year by our Motion Picture Group. *eXistenZ* premiered at the Berlin Film Festival and won the prestigious Silver Bear Award – and also opened as the number one film in France and Switzerland. The Motion Picture Group will continue to produce bold and thought-provoking feature films with budgets ranging from $2 million to $10 million. In certain circumstances we will entertain larger projects with budgets approaching $25 million. The Company will manage risk by adhering to its stated policy, which generally requires financing commitments of approximately 75% to 80% of cost – prior to the commencement of the production process.

In line with the Motion Picture Group's growth strategy, Alliance Atlantis continues to cultivate relationships with some of the most prominent directors – including Atom Egoyan, David Cronenberg, Denys Arcand, Istvan Szabo, Costa Gravas and Roman Polanski, as well as some of the world's leading

production companies – including Robert Lantos' Serendipity Point Films, Roger Frappier's Max Films and, in the United Kingdom, George Faber's Company Pictures and Natural Nylon Entertainment, owned by the exciting young British actors Jude Law *(eXistenZ)* and Ewan McGregor *(Star Wars)*. The Company also continues to develop and build relationships with the next generation of directors and producers, including Thom Fitzgerald, director of the award-winning *Beefcake,* and Shane Meadows, director of *A Room for Romeo Brass*. These relationships provide Alliance Atlantis with the opportunity to work with top talent resulting in first class, commercially successful productions.

Some of the motion picture projects which are currently in progress or in the planning stage – and which are currently scheduled for release in fiscal 2000 or early 2001 include;

- *Sunshine* – From Academy Award-winning director Istvan Szabo comes a sweeping story of passion, war and intrigue set in the canvas of the Austrian-Hungarian Empire, WW II and the rise and fall of communism. Starring Ralph Fiennes, William Hurt and Molly Parker.
- *15 Moments* – Director and two-time Academy Award-nominee Denys Arcand thrusts you into the wild world of sudden, outrageous global celebrity and its price tag, inventively told through the ever-watchful eyes of the media. Starring Dan Aykroyd, Jessica Paré and Frank Langella.
- *New Waterford Girls* – From director Alan Moyle comes a poignant coming of age comedy about a gifted sensitive teenager who dreams of life beyond her small Cape Breton town and becomes inspired when a 15-year-old girl from New York moves in next door. Starring Liane Balaban and Tara Spencer-Nairn.
- *A Room for Romeo Brass* – The friendship of two young boys is tested when one is confined to his room after an operation and the other turns to petty crime in this urban rite of passage. Directed by Shane Meadows and starring Bob Hoskins.
- *The Five Senses* – Acclaimed at the 1999 Cannes Film Festival, Jeremy Podeswa tells the story of five emotionally adrift characters on a quest for love. Through the senses of touch, taste, hearing, smell and vision they find a gateway to their interwoven journeys of self-discovery. Starring Mary Louise Parker, Marco Leonardi and Molly Parker.
- *Felicia's Journey* – Following his two Academy Award nominations for *The Sweet Hereafter,* Atom Egoyan adapts William Trevor's acclaimed novel into a chilling brilliant film starring Bob Hoskins. *Felicia's Journey* premiered in competition at Cannes in May 1999, and opened the 1999 Toronto International Film Festival.

DISTRIBUTION

With offices in Toronto, Montreal, Los Angeles and London, the motion picture distribution arm licences and distributes motion pictures in Canada and elsewhere around the world. The largest and most

Facing page, left to right: Starring Mary Louise Parker and Marco Leonardi, **Five Senses** premiered at the 1999 Cannes International Film Festival.

Natasha Henstridge, Johnathon Schaech and Lauren Hutton star in **Caracara,** an action-thriller from the Company's Le Monde division.

Distributed by Alliance Atlantis, **Austin Powers: The Spy Who Shagged Me,** starring Mike Myers, is the highest grossing film in the Company's history.

Academy Award-nominated director Denys Arcand provides a provocative exposé of our fame-obsessed culture in **15 Moments,** starring Jessica Paré and Frank Langella.

profitable is the distribution market in Canada. Last year, the Motion Picture Group released 63 films in Canada – capturing approximately 15% of the domestic market – second only to Paramount who released the blockbuster film, *Titanic*. The Company expects to become the dominant player in the Canadian marketplace during the current year. The Motion Picture Group has plans to release over 100 feature films this year which will represent approximately 20% of the domestic market.

The Company releases motion pictures through one of three of its releasing labels; Alliance Atlantis Motion Picture Distribution, Odeon Films, in which the Company acquired a 75% interest during the year and our Quebec-based operation Alliance Atlantis Vivafilm.

Over the years, the Motion Picture Group has matured and developed several key relationships with highly respected motion picture studios. These relationships are due primarily to the Company's ability to increase market penetration and acceptance and drive sales revenue through extensive local knowledge, presence and experience. During the year our abilities were further validated by contract renewals. Our distribution agreement with Miramax Films – producer of the very successful and Academy Award-winning *Shakespeare in Love* and *Life is Beautiful* – was extended to 2005. New Line Cinema – producer of *Austin*

Above: **Felicia's Journey** – Selected to open the 1999 Toronto International Film Festival, stars Bob Hoskins and Elaine Cassidy.

Right: **Sunshine** – Shot on location in Budapest, Hungary, **Sunshine** stars Ralph Fiennes, who portrays three generations of the Sonnenschein family.

Powers: The Spy Who Shagged Me – agreed to renew our arrangements to 2001. October Films, producer of the Academy Award-winning films – *The Apostle* and *The Last Days* – and Artisan Films, who recently acquired the rights to the highly anticipated *The Blair Witch Project*, and produced the Roman Polanski film – *The Ninth Gate* – extended our distribution arrangements to 2002 and 2001, respectively. During the year, we also signed a long-term output agreement with France's Canal Plus.

In addition to Alliance Atlantis' theatrical releases, the Company released 144 films on video – 40 of which were also on DVD. A significant strategic focus of the distribution business is to continue to acquire films in Canada that are released directly to the home video market. The Company operates a substantial home video business in Canada under a long-term agreement and marketing joint venture with Universal Studios.

The Company's international operation is a critical component of the motion picture distribution strategy in terms of accessing the market as directly as possible. Films that the Company produces and acquires are licensed to local distributors in every territory in the world (outside Canada and the U.K. where Alliance Atlantis has local distribution capacities) through two companies, Alliance Atlantis Pictures International and its affiliate Le Monde Entertainment.

Launched in September 1997, Alliance Atlantis Distribution U.K. distributes feature films and television programming in all media in the U.K., primarily product from Alliance Atlantis Productions. A significant opportunity for growth for the Company in the U.K. will come through additional Alliance Atlantis productions and film acquisitions, all of which will be available for distribution through the U.K. office. Last year, 11 films were released theatrically and another 13 on video. Upcoming films include *Sunshine, A Room for Romeo Brass*, *Cookie's Fortune*, with Glenn Close, and *Nora*, starring Ewan McGregor *(Star Wars)*. The division intends to release 18 to 24 films theatrically per year in the U.K. and was responsible for the distribution of *eXistenZ*, which opened at the number three position in Great Britain.

ALLIANCE ATLANTIS CINEMAS

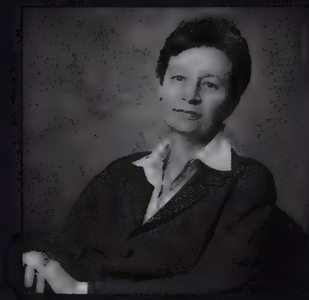
In September 1998, and in partnership with Famous Players – a subsidiary of Viacom – the Company successfully launched a chain of specialty cinemas. Alliance Atlantis Cinemas are primarily focused on the upscale – director driven – art-house film product, which is the core competency of our motion picture production group. As the only Canadian production and distribution company to launch a chain of cinemas, we are uniquely positioned in the Canadian marketplace as the sole upscale, art-house cinema chain, controlling close to 90% of the art-house films distributed in Canada. The Company's current plans are to open eight cinemas – with a total of approximately 70 screens across Canada – 30 of which will be open by the end of 2000 and the balance coming on stream during 2001 and early 2002. Today, we have 16 screens distributed among four locations – 10 of which are in Toronto and the balance located in Vancouver.

IMAGES

PLATOON

BROADCASTING GROUP

OZ



PHYLLIS YAFFE
President
Alliance Atlantis
Broadcasting

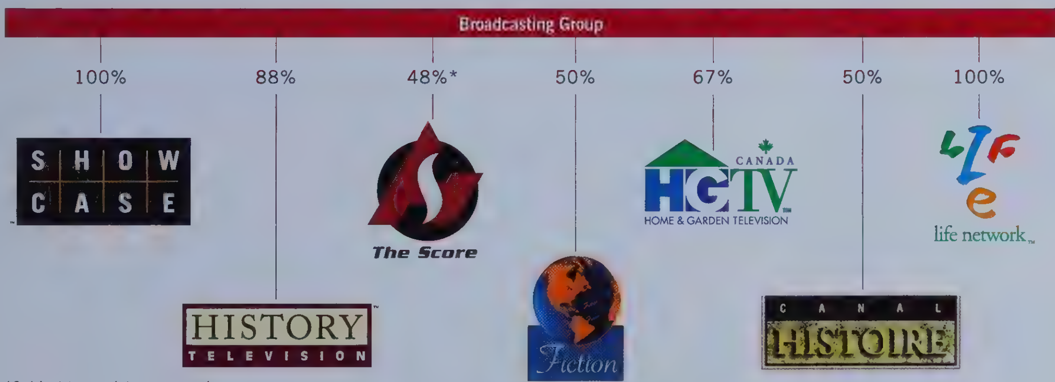
1999 PRIMARY ACCOMPLISHMENTS

- AWARDED 50% INTEREST IN TWO NEW FRENCH-LANGUAGE NETWORK LICENCES – CANAL FICTION AND CANAL HISTOIRE – SCHEDULED FOR LAUNCH IN JANUARY 2000
- ACHIEVED 28% RATINGS INCREASE FOR OUR FOUR EXISTING NETWORKS – SHOWCASE, LIFE NETWORK, HGTV CANADA AND HISTORY TELEVISION
- RECORDED SIGNIFICANT INCREASES IN SUBSCRIBER AND ADVERTISING REVENUE COMPARED TO PRIOR YEAR
- FINALIZED AN AGREEMENT TO ACQUIRE 47.85% OF HEADLINE SPORTS (SUBJECT TO REGULATORY APPROVAL)

STRATEGIES FOR GROWTH AND PROFITABILITY

- LEVERAGE THE COMPANY'S MULTI-NETWORK PLATFORM TO MAXIMIZE ADVERTISING REVENUE OPPORTUNITIES AND MINIMIZE OPERATING COSTS
- SUCCESSFULLY LAUNCH TWO FRENCH-LANGUAGE NETWORKS – CANAL FICTION AND CANAL HISTOIRE
- SUBMIT NEW APPLICATIONS FOR ADDITIONAL NETWORKS
- COMPLETE THE "CANADIANIZATION" OF THE UNITED STATES BASED FOOD NETWORK, THEREBY ADDING ONE ADDITIONAL NETWORK
- CLOSELY WORK WITH AND PROVIDE STRATEGIC SUPPORT FOR THE NEW MEDIA GROUP

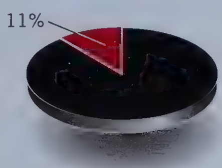
The Alliance Atlantis Broadcasting Group currently owns, either wholly or in part, seven specialty television networks – Showcase, Life Network, HGTV (Home & Garden Television) Canada, History Television, Canal Fiction, Canal Histoire and Headline Sports (subject to CRTC approval) – and is the exclusive sponsor in Canada for the United States based Food Network.



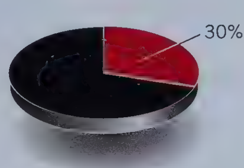
*Subject to regulatory approval

For the fiscal year ending March 31, 1999 the Broadcasting Group contributed $76.8 million – or 11% of the Company's consolidated revenue; $40.4 million – or 30% to gross profit; and $16.3 million – or 24% to the Company's consolidated EBITDA.

REVENUE
% of Total



GROSS PROFIT
% of Total



In May 1999, the national broadcasting regulator, the Canadian Radio-television and Telecommunications Commission (CRTC), allowed the Company to merge its then existing networks – HGTV (Home & Garden Television) Canada, History Television, Life Network and Showcase – under the umbrella of Alliance Atlantis Broadcasting. Later the same month, the Company, in a 50/50 partnership with Astral Communications Inc. of Montreal, was awarded two new French-language networks – Canal Fiction and Canal Histoire – both scheduled to launch in January 2000. Canal Fiction will offer a wealth of first-rate international dramatic programming, and Canal Histoire will feature a comprehensive and entertaining combination of historical documentaries, films and original programming from Canada and around the world. These new networks are essentially the French-language equivalents of our existing English-language networks – Showcase and History Television.

In addition to these direct network ownership interests, the Company also represents three additional French-language networks – for a total of nine attractive and entertaining networks – upon which to build significant increases in national advertising sales.

As a group, the networks offer great growth and profitability opportunities because of the benefits of packaging for greater efficiencies in marketing, promotion, and operations, as well as for advertiser and subscriber expansion. Subscriber penetration growth for HGTV Canada and History Television is estimated to be 7% for fiscal 2000, and 4% for Showcase and Life Network over the same period.

In addition to building the subscriber and advertiser base for existing networks, the next phase of growth for the Broadcasting Group will occur in two ways. The first will be to complete the "Canadianization" of Food Network, based in the United States, which currently has over 2.4 million subscribers in Canada. This popular channel which is owned and operated by the E.W. Scripps Company will, in partnership with the Broadcasting Group, evolve into a Canadian network offering exactly the same kind of entertaining food programming and Food Network favourites.

The Broadcasting Group will also respond to the CRTC's widely-anticipated call for new applications for additional networks to be added to the Canadian broadcasting landscape. This call is expected in early 2000. The Company will submit a number of applications for new network licences. Each new network will provide an exciting and interesting theme which will have great appeal to our audience and conform with the Broadcasting Group's overall strategic direction.

SHOWCASE

Showcase – "Television Without Borders" – turned in another outstanding year, continuing to offer a sophisticated mix of the best movies and dramatic programming from Canada and around the world.

Showcase reaches 75% of Canadian cable households, with 4.8 million subscribers representing an 11% increase over 1998. In fiscal 1999 advertising revenues also grew 11% over the previous year.

Following last fall's repositioning of the network, Showcase's primetime audiences increased a remarkable 60% for Adults 25 to 54. The audience for *The Showcase Revue*, a lineup of the world's best movies that air every evening, grew 49% for the same demographic.

Showcase has developed an exclusive partnership with the BBC to provide Canadian viewers with some of the best British mini-series and specials available every month. Showcase is the official broadcaster of

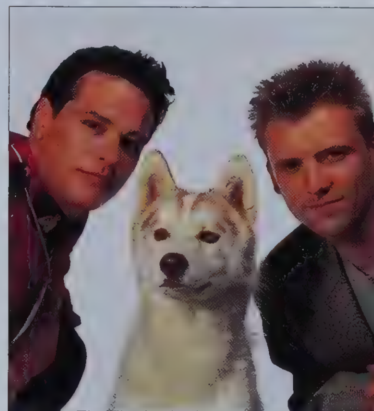
Above: HGTV's original series – **Savoire Faire** is seen in over 46 million cable homes across North America.

Left: Hockey hero Jacques Plante, as featured on History Television's **The Canadians: Biographies of a Nation.**

Middle: Showcase garnered record audience numbers when it aired the Canadian network premiere of **Seven** on January 23, attracting an unprecedented 708,000 viewers 2+.

Below top: Paul Gross in **Due South** on Showcase, the most successful Canadian series of all time.

Below middle: Larger-than-life hosts Jennifer Paterson and Clarissa Dickson Wright scoot around the English countryside in search of the perfect ingredients and locations to whip some scrumptious delights on Food Network's **Two Fat Ladies.**



Providing creative and inspiring ideas since 1993, **Martha Stewart Living** is consistently rated in the top three shows on Life Network, attracting over three-quarters of a million weekly viewers.

Minette Walters' gripping "whodunits". During the year, Showcase broadcast critically acclaimed British programming such as *The Sculptress*, *The Ice House*, *The Scold's Bridle* and *The Echo*.

In addition to its impressive audience growth, Showcase has been honoured with a number of prestigious awards for marketing, promotion and design, including the Canadian Cable Television Associations' Galaxi Award for "Best Overall Promotional Campaign" amongst all Canadian specialty networks.

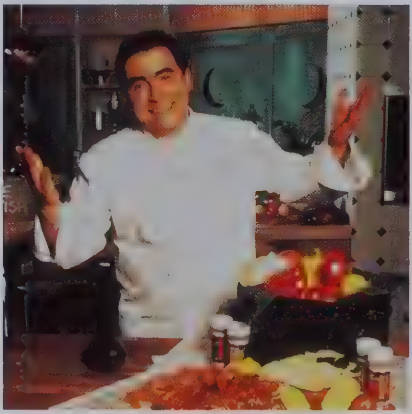
LIFE NETWORK

The 1998 – 99 broadcast season has marked an important evolution for Life Network. Already Canada's established leader in "how-to" lifestyle programming, the network expanded its lineup to embrace a wide range of lifestyle entertainment.

The new programming lineup was met with great success as Life Network saw audiences grow substantially. According to A.C. Nielsen, Life Network demonstrated a 40% increase in viewers in the 1998 fall season. The network also increased its average minute audiences by 46% over this same period for viewers aged 2+, and 31% for Adults 25 to 54. During the last broadcast year, Life Network maintained its strong advertising base achieved in the prior year.

Life Network experienced subscriber growth of 18% to end the year with a total of 4.8 million subscribers – and anticipates an additional 4% penetration for the coming year.

Life Network's **TV Guide Television** previews the week in television with host Aashna Patel, offering exclusive interviews with the stars and star-makers.



Named one of People magazine's Most Intriguing People of 1998, the man of "BAM!", Emeril Lagasse continues to thrill audience members and celebrity visitors on **Emeril Live.**

Kathy Renwald hosts Canada's first live gardening show designed to help viewers wake their gardens from a long winter's nap on **Calling All Gardeners.**

HGTV CANADA

In only its second broadcast year, HGTV (Home & Garden Television) Canada continues to flourish in the growing trend in "do-it-yourself" home improvement. HGTV Canada is a valuable guide to home and garden resources and ideas with a selection of stylish, practical and entertaining programming in five distinct categories – *Gardening & Landscaping, Building & Remodeling, Home Decorating & Interior Design, Hobbies & Crafts* and *Special Interests*.

According to A.C. Nielsen, HGTV Canada's weekly average hours tuned increased 41% for the network's key demographic, women aged 25 to 54, for the 1998 fall season. The network also grew its average minute audiences during this same period with an increase of 44% for viewers aged 2+ and 33% for Adults 25 to 54. During the 1998 – 99 broadcast year, advertising revenue for HGTV Canada grew a remarkable 63% – reflecting the continued acceptance and maturation of the network.

HGTV Canada experienced subscriber growth exceeding 100% – almost 1.7 million subscribers – to end the year with close to 3.4 million total subscribers. A minimum of 7% subscriber penetration growth is expected in 2000.

In March 1999, HGTV Canada's homegrown series *Savoir Faire* was the proud recipient of the Galaxi Award for Best Lifestyle Program or Series presented by the CCTA for excellence in programming. Consistently ranked in the Top 10 programs on HGTV Canada, *Savoir Faire* features elegant and original approaches to entertaining with host Nik Manojlovich.

HISTORY TELEVISION

History Television's entertaining and informative blend of movies, biographies and original historical documentary programming from Canada and around the world, has resulted in both an increase in the number of subscribers as well as audience growth.

History Television posted a 30% increase in Adults 25 to 54 audiences this past winter – making it the network's most successful season to date. Currently, History Television has 3.6 million paid subscribers. Next year, the Company is forecasting a minimum 7% subscriber growth rate. Advertising revenues were strong last year, increasing 50% over the prior year.

The History Television network now ranks in the top three "Favourite Canadian Specialty Channels" according to Roper Reports Canada, and in A.C. Nielsen's survey of overall viewer satisfaction amongst all Canadian specialty channels.

JURIS SILKANS
President
Alliance Atlantis
New Media

NEW MEDIA

The New Media Group of Alliance Atlantis was formed in May 1999 to take advantage of burgeoning Internet use leading to new sources of revenues. The group will re-purpose existing video assets into the content-hungry on-line world and develop new businesses that can harness the media and content consumption habits of on-line users.

As TV and the PC become increasingly interconnected, the New Media Group will provide Alliance Atlantis with strategic leadership to most efficiently and effectively leverage the changing media habits of the fast growing on-line audience.

The same demographic groups who are the greatest consumers of our television and motion picture productions populate today's Internet world. The Internet marketplace expands to increasingly include the age 25 to 54 target audience of upscale, urban homeowners who form the core of our specialty network audiences. There is a direct relationship between viewers' interests in our lifestyle television channels and their propensity to purchase goods in those categories. Connecting their specialty network viewing interests with allied web sites will permit direct marketing of related goods and services in association with key financial, retail and fulfillment partners.

By cross-promoting Alliance Atlantis television and motion picture viewers, the Company has the unique opportunity to market its on-line assets to a worldwide audience. This ability to drive customers directly to our world wide web properties will allow Atlantis Alliance to leverage advertising, sponsorship and e-commerce revenues from a significant user base. Sponsorship packages will combine a variety of Alliance Atlantis assets, including the world wide web to attract a larger proportion of advertiser expenditures.

1999 Television Critics Association Award

Outstanding Achievement in Movies, Mini-Series & Specials – Joan of Arc

1999 Prime Time Emmy Nominations

Outstanding Mini-Series – Joan of Arc
Outstanding Lead Actress in a Mini-Series, Movie or Special – Joan of Arc
Outstanding Supporting Actor in a Mini-Series or Movie – Joan of Arc
Outstanding Supporting Actress in a Mini-Series or Movie – Joan of Arc (2 nom.)
Outstanding Art Direction for a Mini-Series or Movie – Joan of Arc
Outstanding Casting for Mini-Series or Made for Television Movie – Joan of Arc
Outstanding Costume Design for a Mini-Series or a Movie – Joan of Arc
Outstanding Directing for a Mini-Series or a Movie – Joan of Arc
Outstanding Single-Camera Picture Editing for a Mini-Series or Movie – Joan of Arc
Outstanding Hairstyling for a Mini-Series, Movie or Special – Joan of Arc
Outstanding Makeup for a Mini-Series, Movie or Special – Joan of Arc
Outstanding Sound Mixing for a Mini-Series or Movie – Joan of Arc
Outstanding Special Visual Effects for a Series – Total Recall

56th Annual Golden Globe Awards

Best Performance by an Actress in a Mini-Series or Motion Picture – Gia
Best Supporting Actress in Series, Mini-Series or Motion Picture Made for TV – Gia

13th Annual Gemini Awards

Best Dramatic Series – Traders
Best Performance by an Actor in a Continuing Leading Dramatic Role – Traders
Best Performance in a Children's or Youth Program or Series – Straight Up
Best Performance by an Actress in a Featured Supporting Role in a Dramatic Series – Traders
Best Performance by an Actor in a Guest Role Dramatic Series – Due South
Best Performance by an Actress in a Guest Role Dramatic Series – Due South
Best Direction in a Dramatic Series – Straight Up
Best Writing in a Dramatic Series – Due South
Best Picture Editing in a Dramatic Program or Series – Once a Thief
Best Original Music Score for a Dramatic Series – Gene Roddenberry's Earth: Final Conflict®

1998 Prime Time Emmy Awards

Outstanding Art Direction for a Variety or Music Program – Rodgers & Hammerstein's Cinderella
Outstanding Single-Camera Picture Editing for a Mini-Series or a Movie – Gia

1998 Columbus International Film And Video Festival, Columbus, Ohio

Bronze Plaque, Drama and Comedy Series – Traders

1999 Writers Guild of Canada Awards

At the End of the Day: The Sue Rodriguez Story
Da Vinci's Inquest
Traders

1999 WorldFest-Houston

Silver Award, Dramatic TV Series – Total Recall 2070
Finalist Award, Dramatic TV Series – Cold Squad
Finalist Award, Animated Division – Shadowraiders

1998 The Academy Of Science Fiction, Fantasy And Horror Films

Saturn Award: Best Genre Syndicated Cable Television Series – The Outer Limits

George Foster Peabody Awards
Shot Through the Heart

WorldFest-Flagstaff
Gold Medal, TV Series-Dramatic – Black Harbour
Silver Medal, Television/PSA's – Mirror Mirror II

New York International Film & Television Festival
Bronze Worldmedal, Best Television Program/Drama – Cold Squad

The American Indian Film Festival
Best Actress – In the Blue Ground: A North of 60 Thriller
Best Supporting Actor – In the Blue Ground: A North of 60 Thriller
Best Story – Big Bear
Producers Award – Big Bear

The New York Festivals
Bronze Worldmedal: Television Entertainment, Drama – Cold Squad
Finalist Certificate – Mirror Mirror

Toronto International Film Festival
Toronto City Award for Best Canadian Feature Film – Nô

Montreal World Film Festival
Best Canadian Film Chosen by the Public – 2 Secondes
Best Canadian FEDEX Film Award – 2 Secondes
Best Director – 2 Secondes
Prix de Montreal for Best First Feature – 2 Secondes

Berlin International Film Festival
Silver Bear – eXistenZ

52nd Edinburgh International Film Festival
The Standard Life Audience Award – Get Real

9th Edition of the Dinard British Film Festival
The Jury Prize (Golden Hitchcock Trophy) – Get Real
The Public Prize (Hitchcock Trophy) – Get Real
The Kodak Prize for Cinematography – Get Real
The LVT Prize – Get Real

Emden Film Festival
Audience Award – Get Real

Namur Festival of Francophone Film
Golden Bayard Award for Best Film – un 32 août sur terre
Best Screenplay – 2 Secondes

Jutra Awards
Best Actor – un 32 août sur terre

Cinéfest '98 – Sudbury Film Festival
Viacom Best Canadian Feature Film Award – Nô

The following discussion and analysis for the years ended March 31, 1999, 1998 and 1997 should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements included in this annual report.

Alliance Atlantis Communications Inc. ("AACI" or the "Company") is a leading international creator, producer, distributor and broadcaster of filmed entertainment with significant ownership of seven Canadian specialty television networks. The Company's principal business activities are carried out through three operating groups: Television, Motion Picture, and Broadcasting.

The Company acquired Atlantis Communications Inc. ("Atlantis") on September 21, 1998 and has recorded the results of Atlantis from the date of acquisition. The acquisition has contributed significantly to the operating results such that a year-over-year analysis of the Company's operating results is not relevant. In order to provide a meaningful year-over-year analysis, AACI's results have been presented on a pro forma basis as if the acquisition of Atlantis had occurred April 1, 1997. (See notes 2 and 3 to the consolidated financial statements.) The review of 1999 operations focuses on the year-over-year changes, comparing the 1999 pro forma results to the 1998 pro forma results unless otherwise indicated.

In 1999 AACI recorded continued strong financial results from operations reporting revenues of $707.7 million, an increase of approximately 18.6% over the prior year. EBITDA increased $16.8 million to $67.1 million from $50.3 million in the prior year. EBITDA is defined as operating earnings before the undernoted plus interest, including the amount in direct operating expenses (note 11 to the consolidated financial statements) and amortization.

The following table presents a consolidated summary of the Company's operating groups for the years ended March 31, 1999, 1998 and 1997.

	Pro forma					*Actual*						% Change
			(unaudited)		%							1998 over
	1999	%	1998	%	Change	**1999**	%	1998	%	1997	%	1997
Revenue – by Group:												
Television	**438,651**	**61.9**	379,642	63.6	15.5	**382,474**	**60.4**	196,466	51.0	122,417	43.3	60.5
Motion Picture	**180,387**	**25.5**	149,500	25.0	20.7	**180,387**	**28.5**	149,500	38.8	113,931	40.3	31.2
Broadcasting	**76,823**	**10.9**	50,450	8.5	52.3	**59,595**	**9.4**	23,028	6.0	19,884	7.1	15.8
Other	**11,805**	**1.7**	17,232	2.9	(31.5)	**10,943**	**1.7**	16,177	4.2	26,367	9.3	(38.6)
	707,666	**100.0**	596,824	100.0	18.6	**633,399**	**100.0**	385,171	100.0	282,599	100.0	36.3
Direct Operating Expenses – by Group:												
Television	**383,163**	**66.7**	328,380	68.2	16.7	**334,281**	**64.8**	167,056	54.8	100,564	46.8	66.1
Motion Picture	**150,088**	**26.1**	116,541	24.2	28.8	**150,088**	**29.1**	116,541	38.3	90,762	42.2	28.4
Broadcasting	**36,413**	**6.4**	27,516	5.7	32.3	**26,680**	**5.2**	11,698	3.8	11,218	5.2	4.3
Other	**4,655**	**0.8**	9,374	1.9	(50.3)	**4,652**	**0.9**	9,374	3.1	12,372	5.8	(24.2)
	574,319	**100.0**	481,811	100.0	19.2	**515,701**	**100.0**	304,669	100.0	214,916	100.0	41.8
Gross Profit – by Group:												
Television	**55,488**	**41.6**	51,262	44.6	8.2	**48,193**	**40.9**	29,410	36.5	21,853	32.3	34.6
Motion Picture	**30,299**	**22.7**	32,959	28.7	(8.1)	**30,299**	**25.7**	32,959	40.9	23,169	34.2	42.3
Broadcasting	**40,410**	**30.3**	22,934	19.9	76.2	**32,915**	**28.0**	11,330	14.1	8,666	12.8	30.7
Other	**7,150**	**5.4**	7,858	6.8	(9.0)	**6,291**	**5.4**	6,803	8.5	13,995	20.7	(51.4)
	133,347	**100.0**	115,013	100.0	15.9	**117,698**	**100.0**	80,502	100.0	67,683	100.0	18.9

FISCAL 1999 COMPARED TO FISCAL 1998 (PRO FORMA)

Revenue

Revenue increased to $707.7 million, a favourable variance of $110.9 million over the prior year's revenue of $596.8 million. The increase is comprised of a $59.0 million increase in the Television Group, a $30.9 million increase in the Motion Picture Group, and a $26.4 million increase in the Broadcasting Group offset by a $5.4 million decrease in Other.

Television Group revenue increased $59.0 million to $438.7 million primarily due to an increase in the number of hours delivered in fiscal 1999 of 332 compared to 259 in 1998. The increase in revenue is net of the impact of the change in accounting policy with respect to revenue recognition which resulted in a deferral of approximately $18.3 million in Television Group revenue which would have otherwise been recorded. (See note 15 to the consolidated financial statements.)

Motion Picture Group revenue increased $30.9 million to $180.4 million due primarily to the success of the distribution business which recorded revenues of $21.7 million in excess of the prior year. The increase in distribution revenue was achieved through the strength of video distribution including such titles as: *Good Will Hunting, Lost in Space, The Wedding Singer, Rush Hour, Blade, Copland, Rounders* and *Scream 2* and by the delivery of the feature film *eXistenZ* in the fourth fiscal quarter. The increase in revenue is net of the impact of the change in accounting policy with respect to revenue recognition which resulted in a deferral of approximately $1.7 million in Motion Picture Group revenue which would have otherwise been recorded. The Motion Picture Group also recorded revenue of $4.6 million related to Alliance Atlantis Cinemas which commenced operations in December 1998.

Broadcasting Group revenue increased $26.4 million to $76.8 million which was attributable to the operating results of History Television and HGTV Canada which have been included for the first time for the entire year, together with a $3.5 million increase in cable subscriber and Direct to Home (DTH) service providers revenue from Showcase and Life Network.

Other, which is comprised of Alliance Atlantis Equicap (our structured financing business), TMP – The Music Publisher and other miscellaneous corporate investments, reported revenue for the year of $11.8 million, representing a decline of $5.4 million over the prior year. This decline was primarily explained by lower revenue from Alliance Atlantis Equicap, which reported revenue of $6.0 million in the current year as compared to $14.2 million in the prior year. This decrease was attributable to changes in federal income tax legislation affecting certain of Alliance Atlantis Equicap products. TMP reported revenue of $3.0 million, an increase of $1.0 million over the prior year's revenue of $2.0 million.

Gross Profit Margin

The overall gross margin percentage for the year of 18.8% is comparable to 19.3% in the prior year.

Television Group's gross margin declined to 12.6% for the year as compared to 13.5% for the prior year. The decline in gross margin is primarily due to higher than anticipated provisions in respect of royalties and residuals related to revenues earned from the Company's library. The provisions recorded in the current year represent the Company's best estimate of amounts which may potentially become owing in future periods, based on library revenues to date. These provisions were higher than anticipated due to the Company's re-assessment of expected future revenue from its library, based on information which is currently available.

Motion Picture Group's gross margin for the year declined to 16.8% from 22.1% in the prior year. The decline in gross margin is the result of a greater percentage of the group's revenue being derived from video sales which have lower margins than theatrical distribution and an increase in sell-through video business which generates a lower margin percentage than the primary rental business.

Broadcasting Group's gross margin for the year increased to 52.6% from 45.5% in the prior year. The increase is primarily attributable to the further maturation of our two new networks, History Television and HGTV Canada.

OTHER EXPENSES

Operating

Operating expenses for fiscal 1999 were $79.2 million, an increase of $12.3 million over $66.9 million incurred in the prior year.

This increase was due to growth initiatives adopted by each of the predecessor companies prior to the merger, acquisition of new businesses, full year results of HGTV and History Television, investment and expansion of our U.K. motion picture distribution business and the operations of Alliance Atlantis Cinemas, which were launched during the year. Each of these new undertakings required a degree of operating cost investment in advance of revenues earned.

Operating expenses for fiscal 1999 which include general and administrative expenses, salaries and benefits, office rental, communication costs and professional fees related to the three operating groups and corporate operations do not yet include the full benefit of our cost reduction initiatives. We have now identified and implemented all necessary measures to eliminate redundancies and realize synergies that were anticipated at the time of the merger.

Amortization

Amortization expense increased $4.9 million to $16.0 million for the year as compared to $11.1 million for the prior year.

The increase was primarily attributable to the additional amortization of goodwill and broadcasting licences obtained on acquisition of Atlantis as well as an increase in amortization expense related to capital assets.

Interest

Interest for fiscal 1999 was $10.3 million as compared to $2.4 million in the prior year. Additionally, the Company incurred interest of $13.0 million and $2.1 million which was charged to direct operating expenses in fiscal 1999 and fiscal 1998 respectively. Including amounts charged to direct operating expenses, total interest expense for fiscal 1999 was $23.3 million as compared to $4.5 million in the prior year.

Total interest expense is net of amounts capitalized to investment in film and television programs of $17.0 million as compared to $2.7 million in the prior year. Interest which has been capitalized and not expensed during the year, will be charged to direct operating expenses in future periods as the related film and television programs are delivered.

The year-over-year increase in total interest expense of $18.8 million is directly attributable to the Company's borrowings which have increased from $111.6 million at March 31, 1998 to $437.0 million at March 31, 1999 as a result of the Company's investment in film and television programs which increased to $542.7 million from $215.5 million in the prior year.

Merger and Restructuring

As a result of the acquisition of Atlantis the Company incurred merger and restructuring expenses of $81.4 million comprised of $30.5 million in cash costs and $50.9 million in non-cash costs. These cash expenses were incurred due to the combination of Alliance and Atlantis and related to costs associated with reducing head count, terminating leases, corporate communications, professional fees and other expenses. The non-cash expenses were as well related to the combination of the operations of the two former companies and related to the streamlining of development projects, investment in film and television programs and other investments.

As at March 31, 1999, approximately $25.1 million had been paid in respect of the cash expenses. The remaining $5.4 million is related to amounts yet to be paid in respect of employee severance and moving and lease termination charges.

Income Taxes

The effective income tax recovery rate for the year was approximately 50.8% as compared to the prior year's income tax rate of 33.5%. The high effective recovery rate was generated from the various income tax jurisdictions, specifically the incurrence of taxable income in low tax rate jurisdictions and the incurrence of losses in higher tax rate jurisdictions.

FISCAL 1998 COMPARED TO FISCAL 1997 (ACTUAL)

Revenue

Revenue in fiscal 1998 was $385.2 million, an increase of $102.6 million or 36.3% compared to $282.6 million in fiscal 1997. This increase was due to revenue growth in all business groups with the exception of Alliance Atlantis Equicap (included within Other) due to changes in federal income tax legislation affecting certain of Alliance Atlantis Equicap products.

Television Group's revenue in fiscal 1998 was $196.5 million, an increase of $74.1 million or 60.5%, compared to $122.4 million in fiscal 1997. This increase was due to a $41.1 million increase in production revenues and a $31.5 million increase in international distribution revenues. In fiscal 1998, 122 hours of television production were delivered compared to 56 hours in fiscal 1997. These hours were comprised of 101.5 hours of series delivered in fiscal 1998 compared to 35 hours in fiscal 1997, 16 hours of television movies delivered in fiscal 1998 compared to 18 hours in fiscal 1997 and 4.5 hours of television pilots delivered in fiscal 1998 compared to 3 hours in fiscal 1997. The revenues did not increase in proportion to the increase in the delivered hours as the majority of the year-over-year increase in delivered hours was in television series which typically have lower per hour revenues than television movies or pilots.

Motion Picture Group's revenue in fiscal 1998 was $149.5 million, an increase of $35.6 million or 31.2% compared to $113.9 million in fiscal 1997. The increase was primarily due to domestic distribution where revenues exceeded fiscal 1997 by $25.2 million due to increased revenues in all divisions: theatrical revenues increased $9.4 million compared to fiscal 1997; video revenues increased $8.6 million compared to fiscal 1997; and television revenues increased $7.0 million compared to fiscal 1997. Theatrical successes in fiscal 1998 included: *Good Will Hunting; Scream 2; Austin Powers; The Wedding Singer;* and *Spawn.* Le Monde revenue in fiscal 1998 was $12.5 million, an increase of $0.8 million or 6.8%, compared to $11.7 million in fiscal 1997. Top revenue performers in fiscal 1998 included: *Airborne; Black Mask; Dearly Devoted,* and *The Fall.* Alliance Atlantis Independent Films' revenue in fiscal 1998 was $11.8 million, an increase of $9.1 million or 337.0%, compared to $2.7 million in fiscal 1997, primarily due to the success of *The Sweet Hereafter.* Alliance Atlantis Pictures International, in its first year of operations, contributed revenue of $7.7 million on international sales of *Strike.* Partially offsetting the above increases in fiscal 1998, Alliance Atlantis Pictures' revenue decreased by $10.8 million over fiscal 1997 from $17.0 million in fiscal 1997 to $6.2 million in fiscal 1998. In fiscal 1998, Alliance Atlantis Pictures delivered *The Sweet Hereafter, Strike* and four LeMonde productions, which combined had lower third-party production financing revenue than *Crash,* the motion picture delivered in the prior year.

Broadcasting Group's revenue in fiscal 1998 was $23.0 million, an increase of $3.1 million or 15.8% over fiscal 1997 due to increased advertising sales and cable subscriber fees on 800,000 more Showcase Television subscribers at March 31, 1998 than at March 31, 1997.

Other revenue in fiscal 1998 was $16.2 million compared to $26.4 million in fiscal 1997. The decrease was primarily due to Equicap, which reported revenue of $14.2 million, a decrease of $10.2 million or 41.8%, compared to fiscal 1997 revenue of $24.4 million.

Gross Profit Margin

Gross profit in fiscal 1998 was $80.5 million, an increase of $12.8 million or 18.9%, compared to $67.7 million in fiscal 1997 due to gross profit growth in all business groups with the exception of Equicap. As a percentage of revenue, gross profit in fiscal

1998 was 20.9%, compared to 24.0% in fiscal 1997, due to decreased margins in the Television Group and the decreased contribution from Equicap at favourable margins partially offset by improved margins in the Motion Picture and Broadcasting Groups. The decreased margin in the Television Group was primarily due to non-recurring revenues recognized in fiscal 1997. The gross margin increase in the Motion Picture Group was due to increased gross margins in Alliance Atlantis Pictures and Alliance Atlantis Independent Films. Alliance Atlantis motion picture distribution's fiscal 1998 gross margin was comparable to the gross margin in fiscal 1997.

Broadcasting Group's gross margin improved over the prior year due to the timing of the purchasing of program rights which impacts amortization expense.

OTHER EXPENSES

Operating

Operating expenses in fiscal 1998 were $51.3 million, an increase of $8.9 million or 21.0%, compared to $42.4 million in fiscal 1997. Other operating expenses as a percentage of revenues decreased to 13.3%, compared to 15.0% in fiscal 1997. Other operating expenses are comprised of corporate overhead and operating expenses other than direct operating expenses. These expenses include such items as general and administrative expenses, salaries and benefits, office rental, communication costs and professional fees. The increase in other operating expenses was primarily due to head count increases in new and expanding businesses and increased overhead associated with acquisitions, such as Citadel and Norstar.

Amortization

Amortization in fiscal 1998 was $5.1 million, an increase of $0.6 million or 13.3%, compared to $4.5 million in fiscal 1997 due primarily to the commencement in fiscal 1998 of amortization of leasehold improvements relating to the fiscal 1997 head office relocation.

Interest

Interest for fiscal 1998 was $1.5 million as compared to $1.3 million in fiscal 1997. Additionally, the Company incurred interest of $2.1 million which was charged to direct operating expenses in fiscal 1998 (1997 – $nil). Including amounts charged to direct operating expenses, total interest expense for fiscal 1998 was $3.6 million as compared to $1.3 million in fiscal 1997.

Total interest expense for fiscal 1998 is net of amounts which have been capitalized to investment in film and television programs of $2.7 million (1997 – $nil). Interest which has been capitalized and not expensed during the year will be charged to direct operating expenses in future periods as the related film and television programs are delivered.

Income Taxes

The Company's effective tax rate for fiscal 1998 was 28.8% compared to 35.5% in fiscal 1997 due to the mix of taxable income from the various income tax jurisdictions and the recognition of previously unrecognized tax losses.

LIQUIDITY AND CAPITAL RESOURCES (ACTUAL)

Working capital, comprised of cash and cash equivalents, accounts receivable, investment in film and television programs and net of revolving term loans, accounts payable and accrued liabilities and deferred revenue was $205.3 million reflecting an increase of $30.3 million or 17.3% over the $175.0 million in working capital at the end of 1998. The increase was largely attributable to $52.9 million which was retained from the issuance of Class B Non-Voting Shares in November 1998. As at March 31, 1999 the Company had approximately $56.9 million of cash and cash equivalents, $52.9 million of which had been set aside for the redemption of the Preferred Shares. (See note 10 to the consolidated financial statements.)

On September 21, 1998, the Company completed a $475 million credit facility consisting of three tranches: a $400 million revolving term loan, a $35 million revolving term loan and a $40 million revolving term loan. The credit facility matures September 2003.

On April 21, 1999, the Company completed a $75 million revolving loan which is due in full in February 2000.

Giving effect to the above transactions, including those completed subsequent to year end, the Company has approximately $170 million in cash and committed bank credit facilities available.

Other Term Loans

Included within other term loans are two non-recourse revolving term loans. Together the term loans total $50.0 million of which approximately $19.6 million was available to fund the Company's secured debt financing business.

Repayment of Revolving Term Loans

The $400 million tranch of the Company's revolving term loans does not require repayment until the period beginning October 1, 2001, at which time (if not extended) it will become repayable in equal quarterly increments over a two-year period. The $35 million and $40 million tranches are payable at various amounts not exceeding in the aggregate $15 million per annum.

Share Capital

On September 21, 1998, in connection with the acquisition of Atlantis, the Company issued 2,118,749 Class A Voting Shares and 206,272 Class C Special Voting Shares for net proceeds of $154.7 million.

On November 18, 1998 the Company issued 2.9 million Class B Non-Voting Shares for net proceeds of $80.4 million. Of the funds raised from this equity issue, $52.9 million were invested in money market funds to provide for the redemption of the Preferred Shares and the balance of approximately $27.5 million was used to fund the cash component of the Company's $81.4 million merger and restructuring charge.

Cash Flow from Operations

The nature of the Company's business is such that significant expenditures are required to produce and acquire television programs and films while revenues from these programs and films are earned over an extended period of time after their completion or acquisition. Cash flow from operations, before changes in non-cash working capital, was $493.4 million representing an increase of $178.5 million or approximately 56.7% over the $314.9 million generated in 1998.

Risk and Uncertainties

The Company capitalizes production and distribution costs as incurred to investment in film and television programs and such costs are amortized to direct operating expenses in accordance with SFAS 53. Under SFAS 53, all costs incurred in connection with an individual film or television program, including production costs, release prints and advertising costs, are capitalized as investment in film and television programs. These costs are stated at the lower of unamortized cost and estimated net recoverable amount. Estimated total production costs for an individual film or television program are amortized in the proportion that revenues relate to management's estimate of the total revenues expected to be received from such film or television program. As a result, if revenue estimates change with respect to a film or television program, the Company may be required to write down all or a portion of the unamortized costs of such film or television program. No assurance can be given that a write down will not have a significant impact on the Company's results of operations and financial condition.

Results of operations for any period are significantly dependent on the number and timing of television programs and films delivered or made available to various media. Consequently, the Company's results of operations may fluctuate materially from period to period and the results for any one period are not necessarily indicative of results for future periods. Ultimately, profitability depends not only on revenues but on the amount paid to acquire or produce the film or television program and the amount spent on the prints and advertising campaign used to promote it.

The Company currently finances a portion of its production budgets from Canadian governmental agencies and incentive programs, such as Telefilm Canada and federal and provincial tax credits, as well as international sources in the case of the

Company's co-productions. There can be no assurance that local cultural incentive programs which the Company may access in Canada and internationally, will not be reduced, amended or eliminated. Any change in these incentive programs may have an adverse impact on the Company.

A significant portion of the Company's revenue and expenses is in U.S. dollars, and therefore subject to fluctuation in exchange rates. There is risk that a significant fluctuation in exchange rates may have an adverse impact on the Company's results of operations.

Year 2000

Many existing computer programs were designed and developed without consideration for the Year 2000 issue, which could lead to the failure of computer applications or create erroneous results by or at the Year 2000. The Year 2000 issue is a business issue, the impact of which extends beyond traditional computer hardware and software to the possible failure of other systems and instrumentation, including equipment utilized by the Company and third parties with which the Company does business.

In addressing the Year 2000 issue, the Company has taken efforts to identify, test and modify or replace systems that may not be Year 2000 compliant. The Company believes that it has substantially completed the assessment process on its own systems and equipment relating to Year 2000 compliance. The Company expects to be compliant with respect to all significant business systems and equipment by October 1999. AACI's standard for Year 2000 compliance requires that a system or piece of equipment be designed to be used prior to, on and after January 1, 2000.

As part of the Company's capital spending program, it has replaced or modified many of its key systems with systems that are expected to be Year 2000 compliant. The Company is in the testing and remediation phase with respect to the remainder of its internal Year 2000 sensitive equipment and systems. Although the Company believes that the costs associated with its achieving Year 2000 compliance will not be material, there can be no assurance that AACI will not incur unanticipated expenses or that it will be able to successfully address all Year 2000 issues. If the Company is not able to resolve its Year 2000 issues in a cost effective and timely manner, such inability could have a material adverse impact on the Company's business.

The impact of the Year 2000 issue on AACI will also be affected by the ability of its business partners, customers, suppliers and vendors and providers of facilities, equipment and services to be Year 2000 compliant. Failure by these third parties to be Year 2000 compliant may adversely affect the Company's operations including the Company's revenue, timing of cash receipts and production. The Company is making inquiries of such third parties on Year 2000 compliance and based on the responses to these inquiries the Company will decide to what extent, if any, a contingency plan should be developed. To date, the Company has not received responses from all third parties and has not independently confirmed any information received from third parties with respect to Year 2000 issues. Therefore, there cannot be assurance that such third parties will address the Year 2000 issue and be Year 2000 compliant in a timely manner or will not suffer a business disruption that may affect the Company's business.

OUTLOOK

The Company is committed to growth through excellence in the creation, production, distribution and exhibition of film and television programs worldwide. The key events of fiscal 1999 are consistent with the Company's growth strategy to enhance shareholder value: the merger creating the Company; the measures taken to significantly reduce operating expenses following completion of the merger; the continued development of a growing television program and motion picture slate; the significant growth in all four television networks; the agreement to acquire 47.85% of Headline Sports; the acquisition of 75% of Odeon Films; the launch of new businesses like Alliance Atlantis Cinemas; the renewal of our exclusive Canadian motion picture distribution agreements with Miramax Films and New Line Cinema; the approval of new French-language television networks. The Company's proven ability to deliver and distribute high quality filmed entertainment, combined with its strong financial and market position, makes it well positioned to continue its aggressive growth strategy.

MANAGEMENT'S REPORT

The accompanying financial statements and all information contained in this annual report of Alliance Atlantis Communications Inc. are the responsibility of Management and have been approved by the Board of Directors. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by Management in accordance with generally accepted accounting principles. The financial statements include some figures and assumptions based on Management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, Management of the Company has developed and maintains a system of internal accounting controls. These controls ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of the Company carries out its responsibility for the financial statements through its Audit Committee. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without Management present.

The financial statements have been audited by PricewaterhouseCoopers LLP Chartered Accountants, whose findings are contained in this annual report.

Lewis Rose

MICHAEL I.M. MACMILLAN
Chairman and Chief Executive Officer

LEWIS N. ROSE
President

W. JUDSON MARTIN
Executive Vice President
and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Alliance Atlantis Communications Inc.

We have audited the consolidated balance sheets of Alliance Atlantis Communications Inc. (formerly Alliance Communications Corporation) as at March 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for each of the years in the three-year period ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1999 and 1998 and the results of its operations and cash flows for each of the years in the three-year period ended March 31, 1999 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants

July 19, 1999
Toronto, Canada

As at March 31, 1999 and 1998
(In thousands of Canadian dollars)

	1999	1998
ASSETS		
Cash and cash equivalents	**56,883**	2,430
Accounts receivable	**470,058**	250,111
Loans receivable	**39,934**	40,697
Income taxes (note 13)	**32,020**	—
Investment in film and television programs (note 4)	**542,722**	215,485
Development costs	**23,407**	19,902
Property and equipment (note 5)	**38,662**	14,121
Broadcasting licences	**78,297**	10,200
Goodwill and other assets (note 6)	**103,371**	12,046
	1,385,354	564,992
LIABILITIES		
Revolving term loans (note 7)	**437,030**	111,572
Accounts payable and accrued liabilities	**277,956**	120,142
Income taxes (note 13)	—	1,135
Deferred revenue	**149,337**	61,366
Other term loans (note 8)	**48,439**	33,751
Convertible debentures (note 9)	**8,794**	17,589
Minority interest	**8,941**	—
	930,497	345,555
SHAREHOLDERS' EQUITY		
Capital stock (note 10)	**438,354**	140,108
Retained earnings	**13,133**	78,845
Cumulative translation adjustments	**3,370**	484
	454,857	219,437
	1,385,354	564,992

The accompanying notes form an integral part of these financial statements.

Approved by the Board of Directors

Director

Director

(In thousands of Canadian dollars – except per share amounts)

	For the years ended March 31			For the years ended March 31, (Pro forma – see note 3) (Unaudited)	
	1999	1998	1997	**1999**	1998
Revenues	**633,399**	385,171	282,599	**707,666**	596,824
Direct operating expenses (note 11)	**515,701**	304,669	214,916	**574,319**	481,811
Gross profit	**117,698**	80,502	67,683	**133,347**	115,013
Other expenses					
Operating	**71,431**	51,258	42,443	**79,223**	66,863
Amortization	**12,258**	5,118	4,530	**15,966**	11,112
Interest (note 11)	**9,029**	1,461	1,296	**10,318**	2,421
	92,718	57,837	48,269	**105,507**	80,396
Operating earnings before undernoted	**24,980**	22,665	19,414	**27,840**	34,617
Merger and restructuring expenses (note 2)	**(81,391)**	—	—	**(81,391)**	—
Gain on sale of investments (note 12)	**717**	5,202	7,544	**717**	5,202
Minority Interest	**609**	63	142	**594**	126
Earnings (loss) before income taxes	**(55,085)**	27,930	27,100	**(52,240)**	39,945
Provision for (recovery of) income taxes (note 13)	**(27,770)**	8,036	9,619	**(26,532)**	13,396
Net earnings (loss) for the year	**(27,315)**	19,894	17,481	**(25,708)**	26,549
Retained earnings – beginning of year (note 15)	**78,845**	58,951	41,470		
Redemption of common shares (note 10)	**(36,272)**	—	—		
Dividends on preferred shares	**(547)**	—	—		
Accretion of conversion feature of preferred shares	**(1,578)**	—	—		
Retained earnings – end of year	**13,133**	78,845	58,951		
Basic earnings (loss) per common share (note 14)	**(1.44)**	1.38	1.47	**(1.10)**	1.33
Fully diluted earnings (loss) per common share	**(1.44)**	1.28	1.39	**(1.10)**	1.31

The accompanying notes form an integral part of these financial statements.

For the years ended March 31, 1999, 1998 and 1997
(In thousands of Canadian dollars)

	1999	1998	1997
CASH PROVIDED BY (USED IN)			
Operating cash flows			
Net earnings (loss) for the year	**(27,315)**	19,894	17,481
Items not affecting cash			
Amortization of film and television programs	**509,770**	294,027	199,589
Amortization of development costs	**3,385**	1,900	2,351
Amortization of property and equipment	**6,559**	2,506	1,771
Amortization of broadcasting licences	**1,047**	174	30
Amortization of goodwill	**1,267**	538	378
Gain on sale of investments	**(717)**	(5,202)	(7,544)
Non-cash interest	**—**	1,089	—
Minority interest	**(609)**	(63)	(142)
	493,387	314,863	213,914
Net changes in other non-cash balances related to operations (note 16)	**(133,738)**	(97,279)	27,205
	359,649	217,584	241,119
Investing cash flows			
Loans receivable	**763**	(31,414)	(9,283)
Film and television programs	**(703,792)**	(367,929)	(239,973)
Development costs	**(4,504)**	(8,130)	(7,692)
Property and equipment	**(16,797)**	(6,313)	(5,237)
Business acquisitions (note 2)	**(3,668)**	(9,331)	(6,373)
Minority interest in acquired businesses	**7,493**	—	—
Long-term investments	**(1,736)**	(246)	(2,219)
Proceeds from sale of investments	**825**	5,269	7,684
	(721,416)	(418,094)	(263,093)
Financing cash flows			
Revolving term loans	**325,458**	141,962	(2,256)
Other term loans	**(48)**	—	(2,083)
Issue of common shares	**84,715**	50,088	31,887
Dividends paid	**(547)**	—	—
	409,578	192,050	27,548
Increase (decrease) in cash and cash equivalents during the year	**47,811**	(8,460)	5,574
Cash and cash equivalents – beginning of year	**2,430**	10,777	5,090
Effect of exchange rates on cash	**45**	113	113
Cash in acquired businesses	**6,597**	—	—
Cash and cash equivalents – end of year	**56,883**	2,430	10,777

The accompanying notes form an integral part of these financial statements.

The Company is a leading international creator, producer, distributor and broadcaster of filmed entertainment with significant ownership of four Canadian speciality television networks (see note 22). The Company's principal business activities are carried out through three operating groups: Television, Motion Picture and Broadcasting.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). These principles conform in all material respects with the accounting principles generally accepted in the United States (United States GAAP) except as described in note 23.

Principles of consolidation

The consolidated financial statements include the accounts of Alliance Atlantis Communications Inc. and all of its subsidiaries.

Revenue recognition

Revenue is derived from the sale of distribution rights and equity in productions and theatrical or television exhibition.

Revenue is recognized as earned when the film or television program is completed and delivered, when amounts are due from the exhibitor or when a contract which irrevocably transfers distribution rights to a licensee or equity to an investor is duly executed, the licence period has begun and there is reasonable assurance of collectability of proceeds.

The Company recognizes as revenue only the net benefits from sales to limited partnerships when the investor has irrevocably committed to acquire the related equity.

Fees related to loan origination, including loan restructuring or renegotiating, are recognized as revenue over the expected term of the loan.

Cable service subscriber fee revenue is accrued as earned. Advertising revenue is recognized when advertisements are aired.

Amounts received and receivable and not yet recognized as revenue are included in deferred revenue.

Cash equivalents

Cash equivalents consist of credit worthy, money market investments, which are carried at the lower of cost and fair market value.

Loans receivable

Loans receivable are stated net of unearned income and an allowance for credit losses. An allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of expected recoveries. The Company conducts ongoing credit assessments of its loan portfolio on an account-by-account basis and establishes specific allowances when doubtful accounts are identified.

Investment in film and television programs

Investment in film and television programs represents the unamortized costs of film and television programs which have been produced by the Company or for which the Company has acquired distribution rights, film and television programs in progress, acquired film and television program libraries and broadcast rights. Costs of produced or acquired film and television programs include all production, print and advertising costs and capitalized interest, which are expected to be recovered from future revenues, net of estimated future liabilities related to the product. Film and television programs in progress represent the accumulated costs of uncompleted film and television programs, which are being produced by the Company. In acquisitions, fair value is assigned to film and television program libraries acquired.

Amortization of film and television programs produced and acquired is determined based on the ratio that current revenues earned from the film and television programs bear to expected gross future revenues for periods not exceeding ten years from the

date of production or acquisition. The cost of libraries is being amortized over the acquired titles' economic lives not to exceed twenty years. The Company expects that 98% of the costs related to completed film and television programs produced and 79% of the costs related to film and television programs acquired will be amortized during the three-year period ending March 31, 2002.

Costs of film and television programs, produced and acquired, and film and television program libraries are written down to the net recoverable amount if the investment is greater than the net recoverable amount. Net recoverable amount is defined as the total undiscounted future revenues expected to be earned from the film and television programs, net of future costs.

Broadcast rights

Broadcast rights included within investment in film and television programs represent long-term contracts acquired from third parties to broadcast film and television programs. Program exhibition rights and corresponding liabilities are recorded at the time the Company becomes committed under a licence agreement and the product is available for telecast.

The cost of the broadcast rights is amortized over the contracted exhibition period beginning in the month the film or television program is premiered based on the estimated useful life of the program to the Company.

Development costs

Development costs represent expenditures made on projects prior to production including investment in scripts. Advances or contributions received from third parties to assist in development are deducted from these costs. Upon commencement of production, development costs are added to the investment in film and television programs. Development costs are amortized on a straight-line basis over three years commencing in the year following the year such costs are incurred when production has not commenced. Development costs are written off when determined not to be recoverable.

Property and equipment

Property and equipment is carried at cost less accumulated amortization. Amortization is provided, commencing in the year after acquisition, using the following rates and methods:

Building	5% by declining balance
Furniture and computer and other equipment	20 – 30% by declining balance
Leasehold improvements	Straight-line over the lease term
Broadcasting equipment	Straight-line over five years

Broadcasting licences

In acquisitions involving broadcasting undertakings, fair value is assigned to the broadcasting licences acquired. Broadcasting licences are carried at assigned value less accumulated amortization. Amortization is provided on a straight-line basis over a period of forty years. Broadcasting licences are written down to the net recoverable amount if there is an expectation that the net carrying amount of the licence will not be recovered. Accumulated amortization at March 31, 1999 was $1,260 (1998 – $213).

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of tangible assets and liabilities acquired. Goodwill is amortized on a straight-line basis over periods up to forty years. Periodically, management reviews the carrying value of goodwill by considering the expected undiscounted future cash flows of the related businesses. Goodwill is written down to the net recoverable amount if there is an expectation that the net carrying amount of the goodwill will not be recovered. Accumulated amortization of goodwill at March 31, 1999 was $2,967 (1998 – $1,700).

Other assets

Other assets include long-term investments which are accounted for at cost when the conditions for equity accounting are not present. Other assets also include deferred financing charges which are being amortized on a straight-line basis over the life of the loan, beginning in the year subsequent to the year the loan is incurred.

Government financing and assistance

The Company has access to several government programs that are designed to assist film and television production and distribution in Canada. Amounts received in respect of production assistance are recorded as revenue in accordance with the Company's revenue recognition policy for completed film and television programs. Government assistance with respect to distribution rights is recorded as a reduction of investment in film and television programs. Government assistance towards current expenses is included in net earnings for the year.

Income taxes

Income taxes are accounted for using the provisions of the Canadian Institute of Chartered Accountants Handbook section 3465, Income Taxes, which requires recognition of future income tax assets and liabilities for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carryforward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment.

Foreign currency

Assets and liabilities denominated in currencies other than Canadian dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Translation gains or losses are included in the determination of earnings except for gains or losses arising on the translation of the accounts of the foreign subsidiaries considered to be self-sustaining, which are recorded as a separate component of shareholders' equity.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative amounts

Certain amounts presented in the prior period have been reclassified to conform with the presentation adopted in the current year.

2. BUSINESS ACQUISITIONS

(a) On September 21, 1998 the Company purchased 100% of the outstanding shares of Atlantis Communications Inc. (Atlantis), a leading international producer, distributor and broadcaster of television programming, for total consideration of $160,490. The consideration was in the form of 2,118,749 Class A Voting Shares, 206,272 Class C Special Voting Shares, and the conversion of 1,410,039 Class A Voting Shares and 445,623 Class B Non-Voting Shares into an equal number of Preferred Shares. The acquisition was accounted for under the purchase method and the results of operations of the acquired company and its subsidiaries have been included in the consolidated statement of operations from the date of acquisition. Subsequent to the acquisition, the operating activities of Atlantis were merged with the operating activities of the Company, resulting in the following merger and restructuring charges:

Cash expenses including employee severance, legal, professional fees and other merger and restructuring charges	30,461
Non-cash charges on development costs, investment in film and television programs, other assets and investments	50,930
	81,391

As at March 31, 1999, the Company had paid approximately $25,080 of the $30,461 of cash expenses. Included within these payments were severance costs related to the termination of 109 employees.

The non-cash charges are attributable to the streamlining and related termination and write-off of certain development projects and other investments as a result of the merger of the two companies.

(b) On May 21, 1998, the Company purchased 75% of the outstanding shares of Odeon Films Inc. (Odeon) for cash consideration of $2,625. The acquisition has been accounted for under the purchase method and the results of operations of the acquired company have been included in the consolidated statement of operations from the date of acquisition.

The purchase consideration for each acquisition was allocated as follows:

	Atlantis	Odeon
Identifiable assets acquired		
Cash	6,597	—
Accounts receivable	234,521	3,154
Investment in film and television programs	130,496	2,719
Development costs	2,386	—
Property and equipment	14,303	—
Broadcasting licences	69,144	—
Goodwill and other assets	88,787	42
	546,234	5,915
Liabilities assumed	385,744	3,290
Net assets acquired	160,490	2,625

The Atlantis transaction resulted in goodwill of $77,370.

(c) The Company purchased the assets of Citadel Entertainment, LLC (Citadel) on December 5, 1997 and 100% of the outstanding shares of Norstar Entertainment Inc. (Norstar) on December 19, 1997 for cash consideration of $3,080 and $6,000 respectively. The acquisitions were accounted for under the purchase method and the results of operations have been included in the consolidated statement of operations from the respective dates of acquisition.

The purchase consideration for each acquisition was allocated as follows:

	Citadel	Norstar
Identifiable assets acquired:		
Accounts receivable	—	5,454
Income taxes	—	5,641
Investment in film and television programs	—	6,377
Development costs	284	285
Goodwill and other assets	3,076	378
	3,360	18,135
Liabilities assumed	280	12,135
Net assets acquired	3,080	6,000

The transactions resulted in goodwill of $3,076 and $372 respectively.

3. PRO FORMA FINANCIAL INFORMATION

Pro forma presentation

The unaudited pro forma consolidated statements of operations for the periods ended March 31, 1999 and March 31, 1998 have been presented, together with additional supplemental information to assist the reader of these financial statements in their assessment of the potential effect of the acquisition of Atlantis. The pro forma statements of operations reflect the operations of the Company as if the acquisition of Atlantis occurred on April 1, 1997. The unaudited pro forma consolidated statements of operations may not necessarily be indicative of the results which would have been achieved if the acquisition had occurred on the date noted above.

The unaudited pro forma consolidated statement of operations for the period ended March 31, 1998 includes the results of the Company for the year ended March 31, 1998 and Atlantis for the twelve months ended March 31, 1998. The Atlantis twelve-month period ended March 31, 1998 has been calculated by adding the unaudited three-month period ended March 31, 1998 to the audited year ended December 31, 1997 less the unaudited three months ended March 31, 1997.

The unaudited pro forma consolidated statements of operations for the period ended March 31, 1999 include the results of the Company for the year ended March 31, 1999 and the results of Atlantis for the unaudited 174 day period ended September 21, 1998.

The unaudited pro forma consolidated statements of operations should be read in conjunction with the audited consolidated financial statements of the Company for the year ended March 31, 1999 and the audited consolidated financial statements of Atlantis for the year ended December 31, 1997, including the notes thereto.

Certain reclassifications have been made to the Company's and Atlantis' historical balance sheets and statements of earnings to conform to the pro forma presentation.

4. INVESTMENT IN FILM AND TELEVISION PROGRAMS

	1999	1998
Produced	**127,720**	93,093
Acquired	**193,396**	83,012
Libraries	**40,484**	—
Programs in progress	**140,525**	22,093
Broadcast rights	**40,597**	17,287
	542,722	215,485

The Company expects that 98% of the costs related to completed film and television programs produced and 79% of the costs related to film and television programs acquired will be amortized during the three-year period ending March 31, 2002.

The Company earns revenues from film and television programs which are fully amortized and are not reflected on the balance sheet.

Previously the Company amortized broadcast rights over the lesser of two years or the contracted exhibition period. Effective January 1, 1999, the Company changed its accounting policy to amortize broadcast rights over the contracted exhibition period, based on the estimated useful life of the program to the Company.

The effect of the change in accounting policy has been reflected retroactively and the results of comparative prior periods presented have been restated accordingly. As a result of the restatement of prior periods, opening retained earnings has been reduced by $1,270 (1998 – $609; 1997 – $nil), direct operating expenses increased (1998 – $1,193; 1997 – $1,100) and provision for income taxes decreased (1998 – $532; 1997 – $491).

5. PROPERTY AND EQUIPMENT

	1999		1998	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**829**	**—**	—	—
Building	**3,510**	**1,389**	—	—
Furniture and other equipment	**34,554**	**15,432**	12,729	5,864
Leasehold improvements	**15,055**	**3,353**	6,456	1,420
Broadcasting equipment	**8,690**	**3,802**	2,925	705
	62,638	**23,976**	22,110	7,989
Net book value		**38,662**		14,121

6. OTHER ASSETS

	1999	1998
Goodwill	**81,482**	3,876
Prepaid and other charges	**16,386**	4,295
Long-term investments	**5,503**	3,875
	103,371	12,046

Previously, pre-operating costs related to the period before commencement of commercial operations of Showcase Television Inc. and History Television Inc. were deferred as other assets and amortized on a straight-line basis over five years. Effective January 1, 1999 the Company changed its accounting policy to expense pre-operating costs as incurred.

The effect of this change in policy has been reflected retroactively and the results of comparative prior periods presented restated accordingly. As a result of the restatement of prior periods, opening retained earnings has been reduced by $2,862 (1998 – $1,111; 1997 – $1,235), other operating expenses increased (1998 – $3,756; 1997 – $406), amortization decreased (1998 – $595; 1997 – $630) and provision for income taxes decreased (increased) (1998 – $1,410; 1997 – ($100)).

7. REVOLVING TERM LOANS

	1999	1998
$400,000 maturing September 2003	**378,918**	—
$ 35,000 maturing September 2003	**32,300**	—
$ 40,000 maturing September 2003	**25,812**	—
$ 75,000 maturing February 2000 (note 22)	**—**	—
$250,000	**—**	111,572
	437,030	111,572

The Company's assets and the assets of certain of its subsidiaries have been pledged as collateral for the revolving term loans.

As at March 31, 1999, including the $75,000 revolving term facility which was completed subsequent to year end, the Company had unused credit facilities aggregating $112,970 (1998 – $138,428).

The availability of the revolving term loans are subject to the Company maintaining a specified tangible net worth and interest and consolidated indebtedness coverage ratios.

Repayment of the revolving term loans are expected as follows:

2000	4,038
2001	13,475
2002	109,605
2003	204,334
2004	105,578
	437,030

8. OTHER TERM LOANS

	1999	1998
Term loans under revolving facilities totalling $50,000 bearing interest at rates between the commercial prime rate plus 0.5% to plus 1.5%	**30,445**	31,019
Mortgages payable, bearing interest at commercial prime rates plus 3% and 9.99%, and repayable over terms extending to October 15, 2005	**3,260**	—
Other term loans which are unsecured and have no fixed terms of repayment, bearing interest at various rates	**13,294**	2,732
Obligation under capital lease	**1,440**	—
	48,439	33,751

Principal repayments are expected to be as follows:

2000	41,771
2001	3,702
2002	524
2003	549
2004	577
Due subsequent	1,316
	48,439

9. CONVERTIBLE DEBENTURES

On October 28, 1994, the Company issued convertible, unsecured, subordinated debentures for $16,500 cash bearing interest at 6.5% per year and maturing on April 5, 2002. The debentures are convertible at the option of the holder into Class A Voting Shares of the Company at any time after October 28, 1995 at a conversion price of $19 per share. Interest is payable in cash or additional convertible debentures at the Company's option.

On October 15, 1997 and March 31, 1998, the Company issued additional convertible debentures in respect of interest payable for $536 and $553 respectively. These debentures carry the same terms and conditions as the debentures issued on October 28, 1994.

Commencing October 28, 1999, the debentures will be redeemable at the option of the Company, provided certain conditions are met, at the issue price, together with accrued and unpaid interest to the date of redemption. The Company has the option to pay for the redemption of the debentures by issuing its own common shares to the debenture holder at a price equal to 90% of the weighted average trading price of the common shares for the last 20 consecutive trading days prior to redemption or the maturity date.

In September 1998, 462,842 Class A Voting Shares were issued in respect of the conversion of $8,795 of the outstanding debentures at the conversion price of $19 per share.

10. CAPITAL STOCK

(a) The authorized capital stock of the Company consists of Common Shares and Preferred Shares as follows:

Common Shares

Class A Voting Shares – unlimited
Class B Non-Voting Shares – unlimited
Class C Special Voting Shares – 275,000

The Class A Voting Shares and the Class B Non-Voting Shares have identical attributes except that the Class B Non-Voting Shares are non-voting and each of the Class A Voting Shares are convertible at any time at the holder's option into one fully paid and non-assessable, Class B Non-Voting Share. The Class B Non-Voting Shares may be converted into Class A Voting Shares only in certain circumstances. Each of the Class C Special Voting Shares are convertible at any time, at the holder's option, and automatically on the third anniversary of their issuance, into 20 fully paid and non-assessable Class B Non-Voting Shares.

Preferred Shares – 1,855,662

The Preferred Shares are non-voting, convertible, retractable, redeemable and have a cumulative dividend rate of 2% per annum. Conversion may occur at any time at the holder's option, or on the third anniversary of the original date of issue at the Company's option, into fully paid and non-assessable Class B Non-Voting Shares. The conversion rate is to be determined by dividing the aggregate redemption price of the Preferred Shares being converted by an amount equal to 115% of the redemption price. The Preferred Shares are retractable at $27.97 at the holder's option beginning on the first anniversary of the original date of issue.

(b) During fiscal 1999, the following transactions occurred:

On September 21, 1998, 2,118,749 Class A Voting Shares and 206,272 Class C Special Voting Shares were issued in connection with the acquisition of Atlantis Communications Inc. for proceeds of $154,707, net of issue expenses and income tax benefits. In addition, 1,410,039 Class A Voting Shares and 445,623 Class B Non-Voting Shares were converted into Preferred Shares. As a result of the conversion of Class A Voting Shares and Class B Non-Voting Shares into Preferred Shares, $36,272 was allocated from retained earnings to Preferred Shares, being the excess of the fair value of the Preferred Shares over the $12,476 book value of the shares converted, net of a $3,155 conversion feature. The value assigned to the conversion feature is being accreted from retained earnings to the Preferred Shares from the date of issue to the date the Preferred Shares are first convertible;

In September 1998, 462,842 Class A Voting Shares were issued in connection with the conversion of $8,795 of convertible debentures;

In November 1998, 2,900,000 Class B Non-Voting Shares were issued pursuant to a public offering at a gross price of $28.50 per share for proceeds of $80,409, net of issue expenses and income tax benefits;

During fiscal 1999, 961,438 Class A Voting Shares were converted into Class B Non-Voting Shares and 141,096 Class C Special Voting Shares were converted into Class B Non-Voting Shares. In addition, 1,148,632 employee stock options for 269,510 Class A Voting Shares and 879,122 Class B Non-Voting Shares were exercised pursuant to the Company's stock option plans for proceeds of $16,025; and

In February 1999, 18,188 Class B Non-Voting Shares were issued in connection with the cancellation of an outstanding option to purchase shares of a subsidiary of the Company at $25.29 per share for proceeds of $460.

(c) During fiscal 1998, the following transactions occurred:

In November 1997, 2,800,000 Class B Non-Voting Shares were issued pursuant to a public offering at a gross price of $18.00 per share for proceeds of $49,362 net of issue expenses and income tax benefits; and

During fiscal 1998, 379,381 Class A Voting Shares were converted into Class B Non-Voting Shares. In addition, 150,840 employee stock options for 36,133 Class A Voting Shares and 114,707 Class B Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of $1,910.

(d) During fiscal 1997, the following transactions occurred:

In August 1996, 3,020,000 Class B Non-Voting Shares were issued pursuant to a public offering at a gross price of US$8.50 per share for proceeds of $32,920, net of issue expenses and income tax benefits;

In September 1996, 10,000 Class B Non-Voting Shares were issued in connection with the acquisition of film and television programs at $13.62 per share for proceeds of $136;

In January 1997, 95,421 Class B Non-Voting Shares were issued in connection with the purchase of a long-term investment at $11.79 per share for proceeds of $1,125;

In January and February 1997, 162,807 Class B Non-Voting Shares were issued in connection with the acquisition of an additional 44% ownership interest in Showcase Television Inc. at $11.84 per share for proceeds of $1,927; and

During fiscal 1997, 62,100 Class A Voting Shares were converted into Class B Non-Voting Shares. In addition, 37,020 employee stock options for 18,509 Class A Voting Shares and 18,511 Class B Non-Voting Shares were exercised pursuant to the Company stock option plan for proceeds of $433.

(e) As a result, the issued capital stock is as follows:

	1999	1998
Class A Voting Shares, 5,041,510 (1998 – 4,561,886)	**70,448**	24,465
Class B Non-Voting Shares, 18,724,827 (1998 – 11,607,970)	**284,001**	115,643
Class C Special Voting Shares, 65,176 (1998 – nil)	**33,579**	—
Preferred Shares, 1,855,662 (1998 – nil)	**50,326**	—
	438,354	140,108

(f) The Company has Employee Stock Option Plans which provide for the issuance of up to 2,908,205 Common Shares. These options generally vest in equal annual amounts over four to five years. No options are exercisable for periods of more than ten years after date of grant. Options granted under the plans may not have an option price less than the closing market price of the Class B Non-Voting Shares on the last trading date preceding the date of the grant.

Stock option activity for 1997, 1998 and 1999 is as follows:

	Number of Shares			Weighted average
	Voting	Non-Voting	Total	exercise price
Outstanding at March 31, 1996	437,870	975,383	1,413,253	13.69
Granted	5,000	121,120	126,120	14.25
Exercised	(18,509)	(18,511)	(37,020)	11.71
Cancelled	(17,934)	(17,925)	(35,859)	12.85
Outstanding at March 31, 1997	406,427	1,060,067	1,466,494	13.81
Granted	—	180,000	180,000	13.87
Exercised	(36,133)	(114,707)	(150,840)	12.64
Cancelled	(10,640)	(95,640)	(106,280)	13.96
Outstanding at March 31, 1998	359,654	1,029,720	1,389,374	13.96
Granted	—	2,388,322	2,388,322	25.13
Exercised	(269,510)	(879,122)	(1,148,632)	14.46
Cancelled	—	(80,859)	(80,859)	19.55
Balance at March 31, 1999	90,144	2,458,061	2,548,205	23.90
Exercisable at March 31, 1999	90,144	1,209,460	1,299,604	20.68
Exercisable at March 31, 1998	292,361	704,248	996,609	13.77
Exercisable at March 31, 1997	291,628	503,604	795,232	13.20

At March 31, 1999, 2,548,205 options were outstanding with exercise prices ranging from $11.70 to $32.00 and with a weighted average remaining contractual life of 7.6 years.

11. INTEREST

	1999	1998	1997
Revolving term loans	**8,822**	1,125	1,073
Other term loans	**2,850**	1,249	—
Convertible debentures	**840**	1,725	1,505
Interest expense capitalized in prior periods	**10,552**	883	—
	23,064	4,982	2,578
Interest expensed to direct operating expenses	**(13,020)**	(2,132)	—
	10,044	2,850	2,578
Interest income	**(1,015)**	(1,389)	(1,282)
	9,029	1,461	1,296

Interest in respect of the revolving term loans are net of $17,011 capitalized to investment in film and television programs (1998 – $2,654; 1997 – $nil).

The weighted average interest rate for the year ended March 31, 1999 was 8.08% (1998 – 6.29%).

12. GAIN ON SALE OF INVESTMENTS

During the year ended March 31, 1999, the Company sold the remainder of its investment in Mainframe Entertainment, Inc. for net proceeds of $825 (1998 – $5,269; 1997 – $7,684) and realized a pre-tax gain on sale of $717 (1998 – $5,202; 1997 – $7,544).

13. INCOME TAXES

The differences between the effective tax rate reflected in the provision for income taxes and the Canadian statutory income tax rate are as follows:

	1999	1998	1997
	%	%	%
Corporate statutory rate of income tax (recovery)	**(44.6)**	44.6	44.6
Adjusted for the effect of:			
Foreign operations subject to different income tax rates	**(14.1)**	(16.9)	(11.9)
Expenses not deductible for income tax purposes	**0.2**	1.6	2.8
Restructuring provision	**7.0**	—	—
Utilization of previously unrecognized tax losses	—	(4.4)	—
Other	**1.1**	3.9	—
	(50.4)	28.8	35.5

The temporary differences which give rise to future tax assets and liabilities at March 31 consist of the following:

	1999	1998
Future income tax assets:		
Property and equipment	**15,672**	443
Loss carryforwards	**17,437**	19,879
Merger and restructuring expenses	**18,667**	—
All other	**3,049**	2,456
	54,825	22,778
Future income tax liabilities:		
Broadcasting licences	**24,214**	3,147
Property and equipment	**3,769**	935
Investment in film and television programs	**11,546**	2,025
All other	**2,564**	1,622
	42,093	7,729
Net future income taxes	**12,732**	15,049
Current taxes recoverable (payable)	**19,288**	(16,184)
	32,020	(1,135)

Management believes that all future income tax assets will be realized and accordingly no valuation allowance has been made.

During the year ended March 31, 1999, the Company paid income taxes of $24,302 (1998 – $12,425; 1997 – $8,537).

As a result of a change in accounting standards, the Company has changed its accounting policy with respect to income taxes. Previously, the Company followed the tax deferral method of accounting for income taxes whereby earnings were charged with income taxes relating to reported earnings with differences between the time certain items were reported in the consolidated financial statements and the time they were reported for income tax purposes being recorded as deferred income taxes.

The effects of this change in accounting policy have been reflected retroactively and the results of comparative periods restated accordingly. As a result of the restatement of prior periods, opening retained earnings has been reduced by $2,208 (1998 – $222; 1997 – $nil), provision for income taxes increased (1998 – $1,995; 1997 – $222) and amortization reduced (1998 – $9; 1997 – $nil).

14. EARNINGS PER SHARE

Earnings (loss) per common share is calculated on the basis of 20,406,308 (1998 – 14,408,000; 1997 – 11,919,000) weighted average common shares outstanding.

The effect of the merger and restructuring charges is to reduce basic earnings per share by $2.21 and pro forma basic earnings per share by $2.09. Had the merger and restructuring charges not been incurred, basic earnings per share would have been $0.77 and pro forma basic earnings per share would have been $0.99.

For the year ended March 31, 1999, fully diluted earnings (loss) per share is equal to basic earnings (loss) per share as the effects of the employee stock options and convertible debentures are anti-dilutive. For the years ended March 31, 1998 and March 31, 1997, the fully diluted earnings per share were calculated on the basis of 16,728,000 and 14,275,000 respectively. The effects of the employee stock options and convertible debentures increased the earnings available to common shareholders by $1,439 in 1998 and $2,313 in 1997.

15. RETAINED EARNINGS

Opening retained earnings has been restated to reflect changes in accounting policies and the adoption of new accounting standards as described in notes 4, 6 and 13. Retained earnings as previously reported was $85,185 (1998 – $60,893; 1997 – $42,705).

In addition, the Company changed its accounting policy for revenue recognition effective September 22, 1998. Revenue from the sale of film or television programs is recognized only when the licence period has begun. The change in accounting policy has been accounted for prospectively as the necessary financial data to account for this change retroactively is not reasonably determinable. The effect of the change in the current year is a reduction in revenue and an increase in deferred revenue of approximately $20,000.

16. STATEMENT OF CASH FLOWS

	1999	1998	1997
Cash provided by (used in)			
Accounts receivable and distribution contracts receivable	**17,728**	(86,201)	(40,427)
Accounts payable and accrued liabilities	**(36,627)**	(363)	35,813
Deferred revenue	**(56,480)**	(2,991)	30,274
Income taxes	**(60,568)**	(1,305)	(1,694)
Other	**2,209**	(6,419)	3,239
Net change in non-cash working capital balances related to operations	**(133,738)**	(97,279)	27,205

17. GOVERNMENT FINANCING AND ASSISTANCE

Revenues include $26,905 of production financing obtained from the government for the year ended March 31, 1999 (1998 – $24,144; 1997 – $9,283). This financing is related to equity participation by government agencies and is repayable from distribution revenues in respect of which the financing was made. As revenues from these productions are not currently known, the amounts ultimately repayable to government agencies are not determinable. In addition, revenues include $23,325 of government grants relating to production activities (1998 – $14,866; 1997 – $7,108).

Investment in film and television programs includes a reduction of $8,454 (1998 – $10,889; 1997 – $10,291) with respect to government assistance for distribution of certain programs. Government assistance may be repayable in whole or in part depending upon future revenues generated by certain individual film and television programs. The potential amounts repayable are not determinable. In addition, revenues include $755 (1998 – $615; 1997 – $859) of government grants relating to distribution activities.

18. COMMITMENTS AND CONTINGENCIES

(a) The Company is committed with respect to operating leases for office premises and equipment expiring at various dates to May 2007. The future minimum payments under the terms of such leases are as follows:

2000	6,410
2001	6,907
2002	6,227
2003	5,873
2004	5,417
Due subsequent	9,027
	39,861

Rent expense for 1999 is $3,749 (1998 – $2,845; 1997 – $2,053).

(b) The Company is involved in various legal actions. In the opinion of management, any resulting liability is not expected to have a material adverse effect on the Company's financial position.

(c) The Company has letters of credit aggregating $62,911 outstanding at March 31, 1999 (1998 – $nil; 1997 – US$2,500). $52,903 of cash and cash equivalents have been pledged as collateral for the letters of credit.

(d) The Company has entered into various foreign exchange forward contracts to sell U.S. dollars at various rates and increments aggregating 7.5 million U.S. dollars. The contracts mature at various dates up to August 15, 2000.

19. SEGMENTED INFORMATION

The Company's principal business activities are carried out through three operating groups: Television, Motion Picture, and Broadcasting. The Television and Motion Picture groups involve the development, production, acquisition, distribution and financing of live action dramatic television and animation, and motion pictures, respectively. The Broadcasting Group consists of the Company's cable channels which include lifestyle, drama and documentary programming.

(a) Information on the operating groups is as follows:

	Television	Motion Picture	Broadcasting	Other	Total
1999					
Revenues	**382,474**	**180,387**	**59,595**	**10,943**	**633,399**
Gross profit	**48,193**	**30,299**	**32,915**	**6,291**	**117,698**
Total assets	**728,970**	**352,146**	**107,758**	**196,480**	**1,385,354**
Capital expenditures	**6,624**	**6,348**	**441**	**3,384**	**16,797**
1998					
Revenues	196,466	149,500	23,028	16,177	385,171
Gross profit	29,410	32,959	11,330	6,803	80,502
Total assets	284,172	220,907	37,885	22,028	564,992
Capital expenditures	711	84	4,148	1,370	6,313
1997					
Revenues	122,417	113,931	19,884	26,367	282,599
Gross profit	21,853	23,169	8,666	13,995	67,683
Total assets	183,263	117,403	25,825	27,351	353,842
Capital expenditures	670	—	363	4,204	5,237

(b) Geographic information is as follows:

	Revenues			Assets	
	Year ended March 31			Year ended March 31	
	1999	1998	1997	**1999**	1998
Canadian	**353,110**	232,001	169,383	**1,150,050**	439,247
Foreign	**280,289**	153,170	113,216	**235,304**	125,745
Total	**633,399**	385,171	282,599	**1,385,354**	564,992

20. FINANCIAL INSTRUMENTS

Fair values of financial instruments

The estimated fair values of financial instruments as at March 31, 1999 and March 31, 1998 are based on relevant market prices and information available at the time. The carrying values of cash and cash equivalents, accounts receivable, loans receivable, long-term investments, accounts payable and accrued liabilities, and other term loans, approximate the fair values of these financial statements. Financial instruments with carrying values different from their fair values include:

	1999		1998	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Assets for which fair value approximates carrying value	**102,320**	**102,320**	47,002	47,002
Accounts receivable	**470,058**	**465,222**	250,111	245,878
Financial liabilities				
Liabilities for which fair value approximates carrying value	**326,395**	**326,395**	153,898	153,898
Revolving term loans	**437,030**	**437,030**	111,572	111,572
Convertible debentures	**8,794**	**11,224**	17,589	23,329

The fair value of accounts receivable is based on discounting future cash flows using rates currently available for similar instruments. The Company has not written these receivables down as it expects to recover their carrying amounts fully by holding them to maturity.

The fair value of the convertible debentures is based on the difference between the conversion price and the closing stock price of the Company on March 31, 1999.

Concentration of credit risk

Accounts receivable from the federal government and other government agencies in connection with production financing represents 14% (1998 – 10%) of total accounts receivable at March 31, 1999. The Company believes that there is minimal risk associated with the collection of these amounts. The balance of accounts receivable and distribution contracts receivable is widely distributed amongst customers. Loans receivable include amounts due from a relatively small number of customers. The Company maintains an allowance for credit losses in an amount considered adequate to absorb estimated credit-related losses.

21. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

22. SUBSEQUENT EVENTS

Subsequent to March 31, 1999:

(a) The Company entered into an agreement to purchase 47.85% of the Common Shares of Sportscope Television Network Ltd. for a gross purchase price of $16,231. The transaction is subject to CRTC approval.

(b) The Company was awarded two new French-language specialty licences. The Company will use these licences to broadcast Canal Histoire and Canal Fiction, which are the equivalents of the Company's existing channels, History and Showcase.

(c) The Company completed a $75,000 credit facility maturing February 2000.

23. RECONCILIATION TO UNITED STATES GAAP

The consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. The following adjustments and/or additional disclosures, would be required in order to present the financial statements in accordance with United States GAAP, as required by the United States Securities and Exchange Commission (SEC).

Under United States GAAP, the net earnings and earnings per common share figures for the years ended March 31, 1999, 1998 and 1997 and the shareholders' equity for the years ended March 31, 1999 and 1998 would be adjusted as follows:

	Net Earnings			Shareholders' Equity	
	1999	1998	1997	**1999**	1998
Canadian GAAP	**(27,315)**	19,894	17,481	**454,857**	219,437
Adjustment to development costs and investment in scripts, net of income taxes of $3,870 (1998 – $1,160; 1997 – $92) (a)	**(4,803)**	(1,440)	115	**(6,644)**	(1,841)
Adjustment to operating expenses with respect to stock option (b)	—	(75)	(77)	**(874)**	(874)
Adjustment to revenue with respect to television licence agreements, net of income taxes of $807 (1998 – $654; 1997 – $662) (c)	**(4,618)**	134	(2,062)	**(10,202)**	(5,584)
Adjustment to operating expenses, net of income taxes of $2,306 (1998 – $981; 1997 – $nil) (d)	**(2,915)**	(1,195)	(485)	**(4,110)**	(1,195)
Adjustment to shareholders' equity with respect to stock options (b)	—	—	—	**874**	874
Adjustment to restructuring provisions (e)	**997**	—	—	**997**	—
Adjustment to remove value of preferred shares (f)	—	—	—	**(50,326)**	—
United States GAAP excluding cumulative effect adjustment	**(38,654)**	17,318	14,972	**384,572**	210,817
Cumulative effect of income tax adjustment for years prior to April 1, 1993	—	—	—	**(285)**	(285)
United States GAAP	**(38,654)**	17,318	14,972	**384,287**	210,532
Earnings per common shared based on United States GAAP (g)					
Basic	**(1.89)**	1.20	1.26		
Diluted	**(1.89)**	1.15	1.21		

(a) Accounting for development costs and investment in scripts

Under Statement of Financial Accounting Standards No. 53 "Financial Reporting by Producers and Distributors of Motion Picture Films" (SFAS 53), expenditures associated with the development of stories and scenarios are expended as incurred while expenditures for properties such as film rights to books, stage plays, original screenplays, etc. are expensed if the

property has been held for three years and has not been set for production. Under Canadian GAAP, development costs and investment in scripts are amortized over three years commencing in the year following the year such costs are incurred. The net difference of the two adjustments is disclosed as a United States GAAP reconciling item.

(b) Accounting for stock options and share issuances

During fiscal 1997, the Company adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" (SFAS 123), but, as permitted, continues to apply Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB 25) in accounting for its employee stock option plan for United States GAAP reconciliation purposes.

For the years ended March 31, 1998 and 1997, no compensatory employee stock options were issued which resulted in a compensation expense, however, a compensation expense was recognized for options issued in prior years as they vested in 1998 and 1997. In accordance with APB 25, the difference between the quoted market price and the option price is recorded as compensation expense over the vesting period.

As the provisions of SFAS 123 have not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For disclosure purposes the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for stock options granted; expected dividend yield of 0.0% (1998 – 0.0%; 1997 – 0.0%), expected volatility of 40% (1998 – 40.4%; 1997 – 41.4%), risk-free interest rate of 4.9% (1998 – 6.0%; 1997 – 5.9%) and expected life of 5.3 years (1998 – 3 years; 1997 – 3 years). The weighted average fair value of each stock option granted in 1999 was $11.65 (1998 – $4.73; 1997 – $4.77). Therefore, the resulting compensation expense in 1999 would have been $4,703 (1998 – $1,292; 1997 – $1,118).

(c) Revenue recognition from television licence agreements

Under Canadian GAAP, revenues from licence agreements for television programs are recognized as earned when the television program is completed and delivered, when amounts are due from exhibitor or when a contract is executed that irrevocably transfers distribution rights to a licensee, and there is reasonable assurance of collectability of proceeds. Under SFAS 53, revenues from licence agreements for television programs are recognized at the time the licence periods commence instead of at the time the licence agreements are executed.

(d) The Company changed its accounting policy with respect to pre-operating costs which was accounted for retroactively resulting in a $2,862 reduction in opening retained earnings. The Company's new accounting policy is consistent with Statement of Position 98-5 (SOP 98-5), "Reporting on the Cost of Start-Up Activities". SOP 98-5 requires costs of start-up activities to be expensed as incurred. The adoption of the SOP however is accounted for as an adjustment to earnings in the year of adoption and not presented on a retroactive basis.

The Company changed its accounting policy to amortize broadcast rights over the contracted exhibition period, based on the estimated useful life of the program to the Company, resulting in a $1,270 reduction in opening retained earnings. Previously, the Company amortized broadcast rights over the lesser of two years or the contracted exhibition period.

(e) Accounting for restructuring provisions

Included in accounts payable and accrued liabilities are restructuring charges which, under United States GAAP, would not meet the criteria for recognition as a liability.

(f) Accounting for preferred shares

Under United States GAAP, convertible preferred shares are presented outside of Shareholders' Equity.

(g) Under both United States and Canadian GAAP, basic earnings per share is computed by dividing the net income (loss) for the period available to common shareholders as measured by the respective accounting principles (numerator), by the weighted average number of common shares outstanding during that period (denominator). Basic earnings per share excludes the dilutive effect of potential common shares. Fully diluted earnings per share under Canadian GAAP and diluted earnings per share under United States GAAP give effect to all potential common shares outstanding during the period.

Under Canadian GAAP, fully diluted earnings per share is calculated assuming that the proceeds from the exercise of potential common shares are invested at an appropriate rate of return, and an imputed interest amount is added to net income for the period. The number of fully diluted shares outstanding represents the weighted average maximum number of potential common shares outstanding. Under United States GAAP, the weighted average number of diluted shares outstanding is calculated assuming that the proceeds from potential common shares are used to repurchase common shares at the average share price in the period. No adjustment is made to net income for imputed interest in calculating diluted earnings per share under United States GAAP. The options outstanding have an anti-dilutive effect on the calculation of diluted earnings per share for the period ended March 31, 1999 and, as a result, there is no difference between earnings (loss) per share figures under Canadian and United States GAAP. Fully diluted earnings per share under United States GAAP for the years ended March 31, 1998 and March 31, 1997 has been calculated on the basis of 13,019,000 and 14,447,000 shares outstanding respectively.

(h) Consolidated statements of comprehensive earnings

The Company's comprehensive earnings determined in accordance with United States GAAP would be as follows:

	1999	1998	1997
Net earnings for the year reported under United States GAAP	**(38,654)**	17,318	14,972
Other comprehensive earnings:			
Foreign currency translation adjustment, net of tax	**2,886**	(211)	315
Comprehensive earnings	**(35,768)**	17,107	15,287

Comprehensive earnings is measured in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). This standard defines comprehensive income as all changes in equity other than those resulting from investments by owners and distributions to owners. The Company has calculated "other comprehensive income" to consist of translation adjustments on foreign operations, which under Canadian GAAP is recorded as a separate component of shareholders' equity.

(i) Consolidated statements of cash flows

The Company's cash flows determined in accordance with United States GAAP would be as follows:

	1999	1998	1997
Operating activities	**351,461**	214,244	238,883
Investing activities	**(713,228)**	(414,754)	(260,857)
Financing activities	**409,578**	192,050	27,548
Effect of exchange rates on cash	**45**	113	113
Decrease (increase) in cash and cash equivalents	**47,856**	(8,347)	5,687

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ANNUAL MEETING

Alliance Atlantis
Beach Cinema
1651 Queen Street East
Toronto, Canada
Thursday, September 23,
1999 at 10:00 a.m.

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The Royal Bank of Canada
Toronto, Canada

AUDITORS

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